

# Internal Revenue bulletin

Bulletin No. 1998-10  
March 9, 1998

## HIGHLIGHTS OF THIS ISSUE

These synopses are intended only as aids to the reader in identifying the subject matter covered. They may not be relied upon as authoritative interpretations.

### INCOME TAX

Rev. Rul. 98-10, page 11.

Reorganizations; exchange of securities. An acquisition of stock for solely voting stock, accompanied under the reorganization plan by an exchange of securities for securities that are of equal fair market value and equal principal amount, qualifies as a corporate reorganization under section 368(a)(1)(B) of the Code. Section 354(a)(1) nonrecognition applies to the securities-for-securities exchange.

Rev. Rul. 98-11, page 13.

Federal rates; adjusted federal rates; adjusted federal long-term rate, and the long-term exempt rate. For purposes of sections 1274, 1288, 382, and other sections of the Code, tables set forth the rates for March 1998.

Rev. Rul. 98-12, page 5.

Election in respect of losses attributable to a disaster. This ruling lists the areas declared by the President to qualify as major disaster areas under the Disaster Relief and Emergency Assistance Act since the publication of Rev. Rul. 97-11.

T.D. 8751, page 23.

REG-104062-97, page 34.

Temporary and proposed regulations under section 1502 of the Code relate to the use of tax credits of a consolidated group and its members. A public hearing on the proposed regulations will be held on May 7, 1998.

T.D. 8754, page 15.

Final regulations under section 1275 of the Code relate to the federal income tax treatment of certain annuity contracts.

T.D. 8755, page 21.

REG-119449-97, page 35.

Temporary and proposed regulations under section 1397E of the Code relate to the federal income tax treatment of

qualified zone academy bonds. A public hearing on the proposed regulations will be held on May 27, 1998.

### EXEMPT ORGANIZATIONS

Announcement 98-19, page 44.

A list is provided of organizations that no longer qualify as organizations to which contributions are deductible under section 170 of the Code.

### ADMINISTRATIVE

Rev. Proc. 98-23, page 30.

Conversion of a Qualified Subchapter S Trust (QSST) to an Electing Small Business Trust (ESBT) and of an ESBT to a QSST. This procedure provides automatic consent of the Commissioner for the conversion of a Qualified Subchapter S Trust (QSST) to an Electing Small Business Trust (ESBT) and of an ESBT to a QSST.

Rev. Proc. 98-24, page 31.

Automobile owners and lessees. This procedure provides owners and lessees of passenger automobiles designed to be propelled primarily by electricity and built by an original equipment manufacturer (electric automobiles) with tables detailing the limitations on depreciation deductions for owners of electric automobiles first placed in service after August 5, 1997, and before January 1, 1998, and the amounts to be included in income by lessees of electric automobiles first leased after August 5, 1997, and before January 1, 1998.

Announcement 98-15, page 36.

The Service is requesting comments from the public on proposed new Forms W-8, Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding; W-8A, For-

(Continued on page 4)

Finding Lists begin on page 49.

Announcement of Disbarments and Suspensions begins on page 46.

Announcement of Declaratory Judgment Proceedings Under Section 7428 begins on page 44.



Department of the Treasury  
Internal Revenue Service

# Mission of the Service

The purpose of the Internal Revenue Service is to collect the proper amount of tax revenue at the least cost; serve the public by continually improving the quality of our prod-

ucts and services; and perform in a manner warranting the highest degree of public confidence in our integrity, efficiency, and fairness.

## Statement of Principles of Internal Revenue Tax Administration

The function of the Internal Revenue Service is to administer the Internal Revenue Code. Tax policy for raising revenue is determined by Congress.

With this in mind, it is the duty of the Service to carry out that policy by correctly applying the laws enacted by Congress; to determine the reasonable meaning of various Code provisions in light of the Congressional purpose in enacting them; and to perform this work in a fair and impartial manner, with neither a government nor a taxpayer point of view.

At the heart of administration is interpretation of the Code. It is the responsibility of each person in the Service, charged with the duty of interpreting the law, to try to find the true meaning of the statutory provision and not to adopt a strained construction in the belief that he or she is "protecting the revenue." The revenue is properly protected only when we ascertain and apply the true meaning of the statute.

The Service also has the responsibility of applying and administering the law in a reasonable, practical manner. Issues should only be raised by examining officers when they have merit, never arbitrarily or for trading purposes. At the same time, the examining officer should never hesitate to raise a meritorious issue. It is also important that care be exercised not to raise an issue or to ask a court to adopt a position inconsistent with an established Service position.

Administration should be both reasonable and vigorous. It should be conducted with as little delay as possible and with great courtesy and considerateness. It should never try to overreach, and should be reasonable within the bounds of law and sound administration. It should, however, be vigorous in requiring compliance with law and it should be relentless in its attack on unreal tax devices and fraud.

# Introduction

The Internal Revenue Bulletin is the authoritative instrument of the Commissioner of Internal Revenue for announcing official rulings and procedures of the Internal Revenue Service and for publishing Treasury Decisions, Executive Orders, Tax Conventions, legislation, court decisions, and other items of general interest. It is published weekly and may be obtained from the Superintendent of Documents on a subscription basis. Bulletin contents of a permanent nature are consolidated semiannually into Cumulative Bulletins, which are sold on a single-copy basis.

It is the policy of the Service to publish in the Bulletin all substantive rulings necessary to promote a uniform application of the tax laws, including all rulings that supersede, revoke, modify, or amend any of those previously published in the Bulletin. All published rulings apply retroactively unless otherwise indicated. Procedures relating solely to matters of internal management are not published; however, statements of internal practices and procedures that affect the rights and duties of taxpayers are published.

Revenue rulings represent the conclusions of the Service on the application of the law to the pivotal facts stated in the revenue ruling. In those based on positions taken in rulings to taxpayers or technical advice to Service field offices, identifying details and information of a confidential nature are deleted to prevent unwarranted invasions of privacy and to comply with statutory requirements.

Rulings and procedures reported in the Bulletin do not have the force and effect of Treasury Department Regulations, but they may be used as precedents. Unpublished rulings will not be relied on, used, or cited as precedents by Service personnel in the disposition of other cases. In applying published rulings and procedures, the effect of subsequent legislation, regulations, court decisions, rulings, and proce-

dures must be considered, and Service personnel and others concerned are cautioned against reaching the same conclusions in other cases unless the facts and circumstances are substantially the same.

The Bulletin is divided into four parts as follows:

## Part I.—1986 Code.

This part includes rulings and decisions based on provisions of the Internal Revenue Code of 1986.

## Part II.—Treaties and Tax Legislation.

This part is divided into two subparts as follows: Subpart A, Tax Conventions, and Subpart B, Legislation and Related Committee Reports.

## Part III.—Administrative, Procedural, and Miscellaneous.

To the extent practicable, pertinent cross references to these subjects are contained in the other Parts and Subparts. Also included in this part are Bank Secrecy Act Administrative Rulings. Bank Secrecy Act Administrative Rulings are issued by the Department of the Treasury's Office of the Assistant Secretary (Enforcement).

## Part IV.—Items of General Interest.

With the exception of the Notice of Proposed Rulemaking and the disbarment and suspension list included in this part, none of these announcements are consolidated in the Cumulative Bulletins.

The first Bulletin for each month includes a cumulative index for the matters published during the preceding months. These monthly indexes are cumulated on a semiannual basis and are published in the first Bulletin of the succeeding semiannual period, respectively.

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## HIGHLIGHTS OF THIS ISSUE—Continued

### ADMINISTRATIVE—Continued

Foreign Person's Claim of Income Effectively Connected With the Conduct of a Trade or Business in the United States; W-8B, Certification for United States Tax Withholding for Foreign Governments and Other Foreign Organizations; and W-8C, Certificate of Intermediary for United States Tax Withholding.

Announcement 98-18, page 44.

Treasury and the Service are soliciting comments regarding the tax effects of changing to the EURO.

# Part I. Rulings and Decisions Under the Internal Revenue Code of 1986

## Section 42.—Low-Income Housing Credit

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of March 1998. See Rev. Rul. 98-11, page 13.

## Section 165.—Losses

26 CFR 1.165-11: Election in respect of losses attributable to a disaster.

**Election in respect of losses attributable to a disaster.** This ruling lists the areas declared by the President to qualify as major disaster areas under the Disaster Relief and Emergency Assistance Act since the publication of Rev. Rul. 97-11.

### Rev. Rul. 98-12

Under § 165(i) of the Internal Revenue Code, if a taxpayer suffers a loss attributable to a disaster occurring in an area subsequently determined by the President of

the United States to warrant assistance by the Federal Government under the Disaster Relief and Emergency Assistance Act, 42 U.S.C. §§ 5121-5204c (1988 & Supp. V 1993) (Act), the taxpayer may elect to claim a deduction for that loss on the taxpayer's federal income tax return for the taxable year immediately preceding the taxable year in which the disaster occurred.

Section 1.165-11(e) of the Income Tax Regulations provides that the election to deduct a disaster loss for the preceding year must be made by filing a return, an amended return, or a claim for refund on or before the later of (1) the due date of the taxpayer's income tax return (determined without regard to any extension of time to file the return) for the taxable year in which the disaster actually occurred, or (2) the due date of the taxpayer's income tax return (determined with regard to any extension of time to file the return) for the taxable year immediately preceding the taxable year in which the disaster actually occurred.

The provisions of § 165(i) apply only to losses that are otherwise deductible under § 165(a). An individual taxpayer may deduct losses if they are incurred in a trade or business, if they are incurred in a transaction entered into for profit, or if they are casualty losses under § 165(c)(3).

The President has determined that during 1997 the areas listed below have been adversely affected by disasters of sufficient severity and magnitude to warrant assistance by the Federal Government under the Act.

### DRAFTING INFORMATION

The principal author of this revenue ruling is Jonathan Strum of the Office of Assistant Chief Counsel (Income Tax and Accounting). For further information regarding this revenue ruling, contact Mr. Strum on (202) 622-4960 (not a toll-free call).

Disaster Areas in 1997	Type of Disaster	Date of Disaster
Alabama Counties of Baldwin, Choctaw, and Mobile	Severe storms, flooding, and high winds associated with Hurricane Danny	July 17-22, 1997
Arkansas Counties of Baxter, Clark, Clay, Conway, Craighead, Cross, Greene, Hempstead, Hot Spring, Independence, Jackson, Jefferson, Lawrence, Lee, Lincoln, Lonoke, Mississippi, Nevada, Newton, Poinsett, Pope, Pulaski, Saline, White, and Woodruff	Severe storms and tornadoes	March 1-4, 1997
Counties of Bradley, Clay, Cleburne, Cleveland, Columbia, Craighead, Dallas, Drew, Faulkner, Grant, Greene, Izard, Jackson, Jefferson, Lafayette, Lincoln, Lonoke, Monroe, Montgomery, Ouachita, Poinsett, Searcy, Sharp, St. Francis, Stone, Union, Van Buren, and White	Severe storms and flooding	April 4-21, 1997
California Counties of Alameda, Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Fresno, Glenn, Humboldt, Kings, Lake, Lassen, Madera, Marin, Mariposa, Mendocino,	Severe storms, flooding, and mud and land slides	December 28, 1996-April 1, 1997

Merced, Modoc, Mono, Monterey, Napa, Nevada, Placer, Plumas, Sacramento, San Benito, San Francisco, San Joaquin, San Luis Obispo, San Mateo, Santa Clara, Santa Cruz, Shasta, Sierra, Siskiyou, Solano, Sonoma, Stanislaus, Sutter, Tehama, Trinity, Tulare, Tuolumne, Yolo, and Yuba; and the City of Morgan Hill

#### Colorado

Counties of Baca, Clear Creek, Crowley, Elbert, Kiowa, Larimer, Lincoln, Logan, Morgan, Otero, Phillips, Prowers, and Weld

Severe storms, heavy rains, flash floods, other flooding, mud and land slides, and severe ground saturation

July 28-August 12, 1997

#### Florida

Counties of Citrus, Hernando, Hillsborough, Lake, Orange, Osceola, Pasco, Polk, and Sumter

Severe storms, high winds, tornadoes, and flooding

December 25, 1997-January 14, 1998

#### Guam

Territory of Guam

Typhoon Paka and associated torrential rains, high winds, high surf, and tidal surges

December 16-17, 1997

#### Idaho

Counties of Adams, Benewah, Boise, Bonner, Boundary, Camas, Clearwater, Elmore, Gem, Idaho, Koontenai, Latah, Nez Perce, Owyhee, Payette, Shoshone, Valley and Washington

Severe storms, flooding, and mud and land slides

November 16, 1996-January 4, 1997

Counties of Benewah, Bingham, Bonner, Bonneville, Boundary, Butte, Custer, Fremont, Jefferson, Kootenai, Madison, and Shoshone

Severe storms, snowmelt, and mud and land slides

March 14-June 30, 1997

#### Illinois

Counties of Alexander, Gallatin, Hardin, Massac, Pope, and Pulaski

Severe storms and flooding

March 1-April 1, 1997

County of Cook

Severe thunder storms and flash flooding

August 16-17, 1997

#### Indiana

Counties of Clark, Crawford, Dearborn, Floyd, Harrison, Jefferson, Ohio, Perry, Posey, Spencer, Switzerland, Vanderburgh, and Warrick

Severe storms and flooding

February 28-March 31, 1997

#### Iowa

Counties of Cass, Clarke, Iowa, Jasper, Madison, Mahaska, Marion, Mills, Polk, Pottawattamie, Poweshiek, Union, and Warren

Severe winter storm

October 26-28, 1997

#### Kentucky

Counties of Adair, Anderson, Ballard,

Severe storms, flooding, and tornadoes

March 1-24, 1997

Barren, Bath, Boone, Bourbon, Boyd, Boyle, Bracken, Breathitt, Breckinridge, Bullitt, Butler, Caldwell, Calloway, Campbell, Carlisle, Carroll, Carter, Casey, Christian, Clark, Clay, Crittenden, Daviess, Edmonson, Elliott, Estill, Fayette, Fleming, Floyd, Franklin, Fulton, Gallatin, Grant, Graves, Grayson, Green, Greenup, Hancock, Hardin, Harrison, Hart, Henderson, Henry, Hickman, Hopkins, Jefferson, Jessamine, Johnson, Kenton, Knott, Larue, Lawrence, Lee, Leslie, Letcher, Lewis, Livingston, Logan, Lyon, Magoffin, Marion, Marshall, Mason, McCracken, McLean, Meade, Menifee, Mercer, Metcalfe, Monroe, Montgomery, Morgan, Muhlenberg, Nelson, Nicholas, Ohio, Oldham, Owen, Pendleton, Perry, Pike, Powell, Robertson, Rowan, Russell, Scott, Shelby, Simpson, Spencer, Taylor, Todd, Trigg, Trimble, Union, Warren, Washington, Webster, and Woodford

#### Louisiana

Counties of Calcasieu, Cameron, and Jefferson Davis	Severe ice storm	January 12-17, 1997
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#### Michigan

Counties of Genesee, Macomb, Oakland, Saginaw, and Wayne	Severe storms, tornadoes, and flooding	July 2, 1997
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#### Micronesia

Yap Proper, Ulithi Atoll, and Ngula Atoll of Yap State	Typhoon Fern	December 25-26, 1996
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#### Minnesota

Counties of Becker, Beltrami, Benton, Big Stone, Blue Earth, Brown, Chippewa, Clay, Clearwater, Cottonwood, Douglas, Faribault, Grant, Hubbard, Jackson, Kandiyohi, Kittson, Lac Qui Parle, Lake of the Woods, Le Sueur, Lincoln, Lyon, Mahnomen, Marshall, Martin, McLeod, Meeker, Murray, Nicollet, Nobles, Norman, Otter Tail, Pennington, Pipestone, Polk, Pope, Red Lake, Redwood, Renville, Rock, Roseau, Sherburne, Sibley, Stearns, Steele, Stevens, Swift, Todd, Traverse, Wadena, Waseca, Watonwan, Wilkin, Wright, and Yellow Medicine	Severe winter storms	January 3-February 3, 1997
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Counties of Aitkin, Anoka, Becker, Beltrami, Benton, Big Stone, Blue Earth, Brown, Carver, Cass, Chippewa, Clay, Clearwater, Dakota, Douglas,	Severe flooding, severe winter storms, snowmelt, high winds, rains, and ice	March 21-May 24, 1997
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<p>Goodhue, Grant, Hennepin, Houston, Hubbard, Kandiyohi, Kittson, Lac Qui Parle, Lake of the Woods, Le Sueur, Lincoln, Lyon, Mahnomen, Marshall, McLeod, Morrison, Murray, Nicollet, Norman, Otter Tail, Pennington, Polk, Pope, Ramsey, Red Lake, Redwood, Renville, Roseau, Scott, Sherburne, Sibley, St. Louis, Stearns, Stevens, Swift, Todd, Traverse, Wabasha, Wadena, Washington, Wilkin, Winona, Wright, and Yellow Medicine</p>		
<p>Counties of Anoka, Hennepin, Isanti, Kandiyohi, Ramsey, Sherburne, and Wright</p>	<p>Severe storms, flooding, tornadoes, and high winds</p>	<p>June 28-July 27, 1997</p>
<p>Mississippi</p>		
<p>Counties of Bolivar, Tunica, Warren, and Washington</p>	<p>Flooding</p>	<p>February 28-April 21, 1997</p>
<p>Montana</p>		
<p>Counties of Broadwater, Carbon, Dawson, Deer Lodge, Flathead, Judith Basin, Lincoln, Madison, Meagher, Missoula, Musselshell, Park, Prairie, Ravalli, Richland, Roosevelt, Sanders, Stillwater, Sweet Grass, Treasure, Valley, Wheatland, Yellowstone and the Flathead Indian Reservation of the Confederated Salish and Kootenai Tribes</p>	<p>Severe storms, ice jams, snowmelt, flooding, and extreme soil saturation</p>	<p>March 1-August 6, 1997</p>
<p>Nebraska</p>		
<p>Counties of Adams, Banner, Buffalo, Butler, Cass, Cheyenne, Clay, Custer, Dawson, Dodge, Douglas, Fillmore, Franklin, Frontier, Furnas, Gosper, Hall, Hamilton, Harlan, Hayes, Hitchcock, Kearney, Kimball, Lancaster, Lincoln, Nuckolls, Otoe, Phelps, Polk, Red Willow, Saline, Sarpy, Saunders, Scotts Bluff, Seward, Thayer, Washington, Webster, and York</p>	<p>Severe snow storms, rains, and strong winds</p>	<p>October 24-26, 1997</p>
<p>Nevada</p>		
<p>Counties of Churchill, Douglas, Lyon, Mineral, Storey, and Washoe; and the City of Carson City; and the Walker River Paiute tribal lands located in Churchill, Lyon, and Mineral Counties</p>	<p>Severe storms, flooding, and mud and land slides</p>	<p>December 20, 1996-January 17, 1997</p>
<p>New Jersey</p>		
<p>County of Atlantic</p>	<p>Severe storms and flooding</p>	<p>August 20-21, 1997</p>



North Dakota		
All Counties	Major winter storm and blizzard	January 3-31, 1997
Counties of Adams, Barnes, Benson, Billings, Bottineau, Bowman, Burke, Burleigh, Cass, Cavalier, Dickey, Divide, Dunn, Eddy, Emmons, Foster, Golden Valley, Grand Forks, Grant, Griggs, Hettinger, Kidder, Lamoure, Logan, McHenry, McIntosh, McKenzie, McLean, Mercer, Morton, Mountrail, Nelson, Oliver, Pembina, Pierce, Ramsey, Ransom, Renville, Richland, Rolette, Sargent, Sheridan, Sioux, Slope, Stark, Steele, Stutsman, Towner, Traill, Walsh, Ward, Wells and Williams	Severe flooding, severe winter storm, heavy spring rains, rapid snowmelt, high winds, ice jams, and ground saturation	February 28-May 24, 1997
Northern Marianas		
Islands of Rota, Saipan, and Tinian	Super Typhoon Keith	November 2-3, 1997
Island of Rota	Typhoon Paka	December 16-17, 1997
Ohio		
Counties of Adams, Athens, Brown, Clermont, Gallia, Hamilton, Highland, Hocking, Jackson, Lawrence, Meigs, Monroe, Morgan, Pike, Ross, Scioto, Vinton and Washington	Severe storms and flooding	February 28-March 17, 1997
Oregon		
Counties of Baker, Coos, Douglas, Gilliam, Grant, Jackson, Josephine, Klamath, Lake, Lane, Morrow, Umatilla, Wallowa, and Wheeler	Severe winter storms, flooding, and mud and land slides	December 25, 1996-January 6, 1997
South Dakota		
Counties of Butte, Harding, Hutchinson, Lake, Meade, Minnehaha, Moody, Pennington, Perkins, and Turner	Severe winter storm	November 13-26 1996
All counties	Severe winter storms and blizzard	January 3-31, 1997
Counties of Aurora, Beadle, Bennett, Bon Homme, Brookings, Brown, Brule, Buffalo, Butte, Campbell, Charles Mix, Clark, Clay, Codington, Corson, Custer, Davison, Day, Deuel, Dewey, Douglas, Edmunds, Fall River, Faulk, Grant, Gregory, Haakon, Hamlin, Hand, Hanson, Harding, Hughes, Hutchinson, Hyde, Jackson, Jerauld, Jones, Kingsbury, Lake, Lawrence, Lincoln, Lyman, Marshall, McCook, McPherson, Meade, Mellette, Miner, Minnehaha, Moody, Pennington, Perkins, Potter, Roberts, Sanborn,	Severe flooding, severe winter storms, heavy spring rains, rapid snowmelt, high winds, and ice jams	February 3- May 24, 1997

Shannon, Spink, Stanley, Sully, Todd, Tripp, Turner, Union, Walworth, Yankton, and Ziebach

#### Tennessee

Counties of Benton, Carroll, Cheatham, Chester, Clay, Davidson, DeKalb, Decatur, Dickson, Dyer, Gibson, Grundy, Hardeman, Hardin, Henderson, Henry, Houston, Humphreys, Jackson, Lake, Lauderdale, Madison, McNairy, Montgomery, Obion, Shelby, Stewart, Sumner, Tipton, and Weakley

Heavy rains, tornadoes, flooding, hail, and high winds      February 28- March 24, 1997

Counties of Bradley, Grundy, Hamilton, Polk, Sequatchie, and Smith

Severe storms and tornadoes      March 28-29, 1997

#### Texas

Counties of Bandera, Bexar, Blanco, Burnet, Comal, Eastland, Edwards, Gillespie, Goliad, Guadalupe, Hays, Kendall, Kerr, Kimble, Llano, Mason, Medina, Real, San Saba, Travis, and Uvalde

Severe thunderstorms and flooding      June 21-July 15, 1997

#### Vermont

Counties of Caledonia, Franklin, Lamoille, Orleans, and Washington

Excessive rainfall, high winds, and flooding      July 15-17, 1997

#### Washington

Counties of Adams, Asotin, Benton, Chelan, Clallam, Clark, Columbia, Cowlitz, Douglas, Ferry, Franklin, Garfield, Grant, Grays Harbor, Island, Jefferson, King, Kitsap, Kittitas, Klickitat, Lewis, Lincoln, Mason, Okanogan, Pacific, Pend Oreille, Pierce, San Juan, Skagit, Skamania, Snohomish, Spokane, Stevens, Thurston, Walla Walla, Whatcom, Whitman, and Yakima

Severe winter storms, flooding, and mud and land slides      December 26, 1996-February 10, 1997

Counties of Clallam, Grays Harbor, Jefferson, King, Kitsap, Lincoln, Mason, Pacific, Pend Oreille, Snohomish, Spokane, Stevens, and Thurston

Heavy rains, snow melt, flooding, and mud and land slides      March 18-28, 1997

County of Pend Oreille

Flooding and snowmelt      April 10-June 30, 1997

#### West Virginia

Counties of Braxton, Cabell, Calhoun, Clay, Gilmer, Jackson, Kanawha, Lincoln, Mason, Putnam, Roane, Tyler, Wayne, Wetzel, Wirt, and Wood

Heavy rains, wind driven rains, high winds, flooding, and slides      February 28-March 15, 1997

## Section 280F.—Limitation on Depreciation for Luxury Automobiles; Limitation Where Certain Property Used for Personal Purposes

26 CFR 280F-7: Property leased after December 31, 1986.

This procedure provides owners and lessees of passenger automobiles designed to be propelled primarily by electricity and built by an original equipment manufacturer (electric automobiles) with tables detailing the limitations on depreciation deductions for owners of electric automobiles first placed in service after August 5, 1997, and before January 1, 1998, and the amounts to be included in income by lessees of electric automobiles first leased after August 5, 1997, and before January 1, 1998. See Rev. Proc. 98-24, page 31.

## Section 280G.—Golden Parachute Payments

Federal short-term, mid-term, and long-term rates are set forth for the month of March 1998. See Rev. Rul. 98-11, page 13.

## Section 354.—Exchanges of Stock and Securities in Certain Reorganizations

26 CFR 1.354-1: Exchanges of stock and securities in certain reorganizations.

The revenue ruling provides that an acquisition of stock for voting stock, accompanied under the reorganization plan by an exchange of securities for securities that are of equal fair market value and equal principal amount, qualifies as a corporate reorganization under § 368(a)(1)(B) of the Code. The revenue ruling also provides that the securities-for-securities exchange is governed by the nonrecognition provisions of § 354(a)(1). Rev. Ruls. 68-637, 69-142, 70-41, 70-269, and 78-408 modified, superseded, amplified, as applicable. See Rev. Rul. 98-10 on this page.

## Section 368.—Definitions Relating to Corporate Reorganizations

26 CFR 1.368-2: Definition of terms. (Also § 354; § 1.354-1.)

**Reorganizations; exchange of securities.** An acquisition of stock for solely vot-

ing stock, accompanied under the reorganization plan by an exchange of securities for securities that are of equal fair market value and equal principal amount, qualifies as a corporate reorganization under section 368(a)(1)(B) of the Code. Section 354(a)(1) nonrecognition applies to the securities-for-securities exchange.

### Rev. Rul. 98-10

#### ISSUE

Where a stock for stock acquisition otherwise qualifying under § 368(a)(1)(B) of the Internal Revenue Code is accompanied by an exchange of securities, how should the transaction be treated?

#### FACTS

The facts are substantially similar to the facts in Rev. Rul. 69-142, 1969-1 C.B. 107.

Corporation X acquires all of the outstanding capital stock of Corporation Y in exchange for voting stock of X. Corporation Y is a solvent corporation. Prior to the exchange, Y has an issue of six percent fifteen-year debentures outstanding. Pursuant to the plan of reorganization, X acquires all the outstanding debentures of Y in exchange for an equal principal amount of new six percent fifteen-year debentures of X. Some of the debentures of Y are held by its shareholders, but a substantial proportion of the Y debentures are held by persons who own no stock.

X is in control of Y immediately after the acquisition of the Y stock. The X and Y debentures constitute "securities" within the meaning of § 354(a)(1) and, thus, do not represent an equity interest. Disregarding the exchange of debentures, the transaction meets the requirements of 368(a)(1)(B).

#### LAW AND ANALYSIS

Section 368(a)(1)(B) provides that a reorganization includes the acquisition by one corporation, in exchange solely for all or a part of its voting stock, of stock of another corporation if, immediately after the acquisition, the acquiring corporation has control of such other corporation.

Section 1.368-2(c) of the Income Tax Regulations provides:

In order to qualify as a "reorganization" under section 368(a)(1)(B), the acquisition by the acquiring corporation of stock of another corporation must be in exchange solely for all or a part of the voting stock of the acquiring corporation . . . , and the acquiring corporation must be in control of the other corporation immediately after the transaction. If, for example, Corporation X in one transaction exchanges nonvoting preferred stock or bonds in addition to all or a part of its voting stock in the acquisition of stock of Corporation Y, the transaction is not a reorganization under section 368(a)(1)(B).

Section 354(a)(1) provides that no gain or loss will be recognized if stock or securities in a corporation a party to a reorganization are, in pursuance of the plan of reorganization, exchanged solely for stock or securities in another corporation a party to a reorganization.

In the circumstances set forth above, the Y shareholders receive exclusively voting stock of X as consideration for the exchange of their Y stock. The fact that a substantial proportion of the Y debentures is held by bondholders who own no stock in Y has the effect of ensuring that the value of the debentures issued by X in exchange for the debentures of Y realistically reflects the value of the Y debentures alone and does not constitute indirect nonqualifying consideration for the Y stock. Because the Y shareholders, in their capacity as shareholders, receive only X voting stock, the transaction constitutes a reorganization within the meaning of § 368(a)(1)(B).

Although the acquisition by X of the debentures of Y in exchange for debentures of X occurs as part of the overall transaction, it is not a part of the stock-for-stock exchange which qualifies as a reorganization. It is, however, an exchange of securities in parties to a reorganization which occurs in pursuance of the plan of reorganization, and, therefore, meets all the conditions of § 354(a)(1).

Accordingly, any gain or loss realized by the debenture holders of *Y* as a result of their exchange of their *Y* debentures for an equal principal amount of debentures of *X* will not be recognized. Section 354(a)(1). If, under different facts, the principal amount of the debentures of *X* was greater than the principal amount of the debentures of *Y*, §§ 354(a)(2) and 356(d) would apply to require the debenture holders of *Y* to recognize some or all of any gain realized.

#### HOLDING

The exchange of *Y* stock for *X* stock is a reorganization described in § 368(a)-(1)(B); and any gain or loss realized by the shareholders of *Y* as a result of the exchange will not be recognized. Section 354(a)(1).

The separate exchange of *Y* debentures for *X* debentures is an exchange in pursuance of the plan of reorganization described in § 368(a)(1)(B). Thus, any gain or loss realized by the debenture holders of *Y* as a result of their exchange of their *Y* debentures for an equal principal amount of debentures of *X* will not be recognized. Section 354(a)(1).

In certain cases, rights to acquire stock of a party to a reorganization are "securities" for purposes of § 354. See § 1.354-1(e) (as amended by T.D. 8752, 1998-9 I.R.B. 4, effective for exchanges occurring on or after March 9, 1998). An exchange of such rights, although separate from a § 368 exchange, may also be in pursuance of the plan of reorganization. In such cases, any gain or loss realized by the holder of such rights as a result of the exchange will not be recognized. Section 354(a)(1).

#### EFFECT ON OTHER REVENUE RULINGS

Rev. Rul. 69-142, which dealt with substantially identical facts, is modified and superseded.

Rev. Rul. 70-41, 1970-1 C.B. 77, deals with a stock-for-stock exchange accompanied by an exchange of Acquired debentures for Acquiring stock. It is modified such that § 354 applies to the exchange of debentures for stock.

Rev. Rul. 78-408, 1978-2 C.B. 203, deals with a stock-for-stock exchange accompanied by a warrant-for-warrant ex-

change. It is modified such that § 354 applies to the exchange of warrants provided that the warrants constitute securities. See § 1.354-1(e).

Rev. Ruls. 68-637, 1968-2 C.B. 158, and 70-269, 1970-1 C.B. 82, similarly deal with reorganization exchanges accompanied by exchanges of warrants or options. Each is amplified such that § 354 applies to the exchange of warrants or options, provided that, as in Rev. Rul. 78-408 above, the warrants or options constitute securities.

#### PROSPECTIVE APPLICATION

Section 7805(b) provides that the Secretary may prescribe the extent, if any, to which any ruling relating to the internal revenue laws shall be applied without retroactive effect. Pursuant to the authority contained in § 7805(b), this revenue ruling will be applied only to corporate reorganizations in which the exchange of securities occurs on or after March 9, 1998, the date this revenue ruling is published in the Internal Revenue Bulletin. Transactions in which the exchange of securities occurs prior to this date will continue to be governed by the rules as they existed prior to publication of this revenue ruling.

#### DRAFTING INFORMATION

The principal author of this revenue ruling is Michael J. Danbury of the Office of Assistant Chief Counsel (Corporate). For further information regarding this revenue ruling, contact Mr. Danbury on (202) 622-7750 (not a toll-free call).

#### Section 382.—Limitation on Net Operating Loss Carryforwards and Certain Built-In Losses Following Ownership Change

The adjusted federal long-term rate is set forth for the month of March 1998. See Rev. Rul. 98-11, page 13.

#### Section 412.—Minimum Funding Standards

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of March 1998. See Rev. Rul. 98-11, page 13.

#### Section 467.—Certain Payments for the Use of Property or Services

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of March 1998. See Rev. Rul. 98-11, page 13.

#### Section 468.—Special Rules for Mining and Solid Waste Reclamation and Closing Costs

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of March 1998. See Rev. Rul. 98-11, page 13.

#### Section 482.—Allocation of Income and Deductions Among Taxpayers

Federal short-term, mid-term, and long-term rates are set forth for the month of March 1998. See Rev. Rul. 98-11, page 13.

#### Section 483.—Interest on Certain Deferred Payments

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of March 1998. See Rev. Rul. 98-11, page 13.

#### Section 642.—Special Rules for Credits and Deductions

Federal short-term, mid-term, and long-term rates are set forth for the month of March 1998. See Rev. Rul. 98-11, page 13.

#### Section 807.—Rules for Certain Reserves

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of March 1998. See Rev. Rul. 98-11, page 13.

#### Section 846.—Discounted Unpaid Losses Defined

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of March 1998. See Rev. Rul. 98-11, page 13.

#### Section 985.—Functional Currency

The Treasury Department and the IRS are soliciting comments on the tax issues raised by the conver-

sion of certain European countries' currencies to a single European currency (euro). See Announcement 98-18, page 44.

*26 CFR 1.985-5: Adjustments Required Upon Change in Functional Currency*

The Treasury Department and the IRS are soliciting comments on the tax issues raised by the conversion of certain European countries' currencies to a single European currency (euro). See Announcement 98-18, page 44.

**Section 989.—Other Definitions and Special Rules**

The Treasury Department and the IRS are soliciting comments on the tax issues raised by the conversion of certain European countries' currencies to a single European currency (euro). See Announcement 98-18, page 44.

**Section 1274.—Determination of Issue Price in the Case of Certain Debt Instruments Issued for Property**

(Also Sections 42, 280G, 382, 412, 467, 468, 482, 483, 642, 807, 846, 1288, 7520, 7872.)

**Federal rates; adjusted federal rates; adjusted federal long-term rate, and the long-term exempt rate.** For purposes of sections 1274, 1288, 382, and other sections of the Code, tables set forth the rates for March 1998.

**Rev. Rul. 98-11**

This revenue ruling provides various prescribed rates for federal income tax purposes for March 1998 (the current month.) Table 1 contains the short-term, mid-term, and long-term applicable fed-

eral rates (AFR) for the current month for purposes of section 1274(d) of the Internal Revenue Code. Table 2 contains the short-term, mid-term, and long-term adjusted applicable federal rates (adjusted AFR) for the current month for purposes of section 1288(b). Table 3 sets forth the adjusted federal long-term rate and the long-term tax-exempt rate described in section 382(f). Table 4 contains the appropriate percentages for determining the low-income housing credit described in section 42(b)(2) for buildings placed in service during the current month. Finally, Table 5 contains the federal rate for determining the present value of an annuity, an interest for life or for a term of years, or a remainder or a reversionary interest for purposes of section 7520.

**REV. RUL. 98-11 TABLE 1**  
**Applicable Federal Rates (AFR) for March 1998**

	<i>Period for Compounding</i>			
	<i>Annual</i>	<i>Semiannual</i>	<i>Quarterly</i>	<i>Monthly</i>
<i>Short-Term</i>				
AFR	5.39%	5.32%	5.29%	5.26%
110% AFR	5.94%	5.85%	5.81%	5.78%
120% AFR	6.48%	6.38%	6.33%	6.30%
130% AFR	7.04%	6.92%	6.86%	6.82%
<i>Mid-Term</i>				
AFR	5.59%	5.51%	5.47%	5.45%
110% AFR	6.15%	6.06%	6.01%	5.98%
120% AFR	6.72%	6.61%	6.56%	6.52%
130% AFR	7.29%	7.16%	7.10%	7.06%
150% AFR	8.44%	8.27%	8.19%	8.13%
175% AFR	9.87%	9.64%	9.53%	9.45%
<i>Long-Term</i>				
AFR	5.91%	5.83%	5.79%	5.76%
110% AFR	6.51%	6.41%	6.36%	6.33%
120% AFR	7.12%	7.00%	6.94%	6.90%
130% AFR	7.72%	7.58%	7.51%	7.46%

REV. RUL. 98-11 TABLE 2

Adjusted AFR for March 1998

*Period for Compounding*

	<i>Annual</i>	<i>Semiannual</i>	<i>Quarterly</i>	<i>Monthly</i>
Short-term adjusted AFR	3.77%	3.74%	3.72%	3.71%
Mid-term adjusted AFR	4.14%	4.10%	4.08%	4.07%
Long-term adjusted AFR	4.88%	4.82%	4.79%	4.77%

REV. RUL. 98-11 TABLE 3

Rates Under Section 382 for March 1998

Adjusted federal long-term rate for the current month	4.88%
Long-term tax-exempt rate for ownership changes during the current month (the highest of the adjusted federal long-term rates for the current month and the prior two months.)	5.10%

REV. RUL. 98-11 TABLE 4

Appropriate Percentages Under Section 42(b)(2) for March 1998

Appropriate percentage for the 70% present value low-income housing credit	8.35%
Appropriate percentage for the 30% present value low-income housing credit	3.58%

REV. RUL. 98-11 TABLE 5

Rate Under Section 7520 for March 1998

Applicable federal rate for determining the present value of an annuity, an interest for life or a term of years, or a remainder or reversionary interest	6.8%
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## Section 1275.—Other Definitions and Special Rules

26 CFR 1.1275–1: *Definitions.*

T.D. 8754

DEPARTMENT OF THE TREASURY  
Internal Revenue Service  
26 CFR Part 1

Debt Instruments With Original  
Issue Discount; Annuity  
Contracts

AGENCY: Internal Revenue Service  
(IRS), Treasury.

ACTION: Final regulations.

SUMMARY: This document contains final regulations relating to the federal income tax treatment of certain annuity contracts. The regulations determine which of these contracts are taxed as debt instruments for purposes of the original issue discount provisions of the Internal Revenue Code. The regulations provide needed guidance to owners and issuers of these contracts.

DATES: *Effective date:* The regulations are effective February 9, 1998.

*Applicability dates:* For dates of applicability, see §1.1275–1(j)(8).

FOR FURTHER INFORMATION CONTACT: Jonathan R. Zelnik, (202) 622–3930 (not a toll-free number).

### SUPPLEMENTARY INFORMATION:

#### *Background*

Sections 163(e) and 1271 through 1275 of the Internal Revenue Code (Code) provide rules for the treatment of debt instruments that have original issue discount (OID).

On February 2, 1994, the IRS and Treasury published in the **Federal Register** (59 F.R. 4799) final regulations under the OID provisions. On April 7, 1995, the IRS published in the **Federal Register** (60 F.R. 17731) a notice of proposed rule-making relating to the federal income tax treatment of annuity contracts that are not

issued by insurance companies subject to tax under subchapter L of the Code. The proposed regulations treat certain of these annuity contracts as debt instruments for purposes of the OID provisions.

The IRS received a number of written comments on the proposed regulations. In addition, on August 8, 1995, the IRS held a public hearing on the proposed regulations. The proposed regulations, with certain changes in response to comments, are adopted as final regulations. The comments and changes are discussed below.

#### *Explanation of Provisions*

##### *Certain Annuity Contracts*

The OID provisions generally apply to issuers and holders of debt instruments. The term *debt instrument* means any instrument or contractual arrangement that constitutes indebtedness under general principles of federal income tax law. See section 1275(a)(1) and §1.1275–1(d).

Section 1275(a)(1)(B) excepts two types of annuity contracts from the definition of *debt instrument* (and, therefore, from the OID provisions). First, section 1275(a)(1)(B)(i) excepts an annuity contract to which section 72 applies if the contract “depends (in whole or in substantial part) on the life expectancy of 1 or more individuals.” Second, section 1275(a)(1)(B)(ii) excepts an annuity contract to which section 72 applies if the contract is issued by “an insurance company subject to tax under subchapter L” and the circumstances of the contract’s issuance meet certain criteria.

The proposed regulations address only the first exception, which is contained in section 1275(a)(1)(B)(i). Under the proposed regulations, an annuity contract qualifies for the exception in section 1275(a)(1)(B)(i) only if all payments under the contract are periodic payments that: (1) are made at least annually for the life (or lives) of one or more individuals; (2) do not increase at any time during the life of the contract; and (3) are part of a series of payments that begins within one year of the date of the initial investment in the contract. An annuity contract that is otherwise described in the preceding sentence, however, does not fail to qualify for the exception in section 1275(a)-

(1)(B)(i) merely because it also provides for a payment (or payments) made by reason of the death of one or more individuals. Thus, under the proposed regulations, the exception in section 1275(a)(1)(B)(i) applies only to an immediate annuity contract with level (or decreasing) payments for the life (or lives) of one or more individuals. No deferred annuity contract qualifies for the exception.

Several commentators questioned the approach of the proposed regulations. In particular, they contended that the exception in section 1275(a)(1)(B)(i) should not be limited to those annuity contracts that require periodic payments to begin within one year of the date of the initial investment in the contract. That is, deferred annuities, if dependent in whole or substantial part on an individual’s (or several individuals’) survival, should also qualify for the exception in section 1275(a)(1)(B)(i). Other commentators took issue with this point of view and contended that the proposed regulations should be finalized without substantial change.

After a careful review of this issue, the IRS and the Treasury have modified the regulations to eliminate the requirement that annuity distributions begin within one year of the date of the initial investment in the contract. Instead, as suggested by the legislative history, the final regulations interpret section 1275(a)(1)(B)(i) as excepting from the definition of *debt instrument* only those annuity contracts that contain terms ensuring that the life contingency under the contract is both “real and significant.” H.R. Conf. Rep. No. 861, 98th Cong., 2d Sess. 887 (1984), 1984–3 (Vol. 2) C.B. 141. The Treasury and the IRS have determined that the life contingency under an annuity contract is “real and significant” within the meaning of the legislative history only if, on the day the contract is purchased, there is a high probability that total distributions under the contract will increase commensurately with the longevity of the individual (or individuals) over whose life (or lives) the distributions are to be made. (These individuals are hereinafter referred to as annuitants.) The final regulations, therefore, provide a two-pronged general rule: An annuity contract qualifies for the exception in section 1275(a)(1)(B)(i) only if it both: (1) provides for periodic distrib-

utions made at least annually for the life (or joint lives) of an individual (or a reasonable number of individuals); and (2) contains no terms or provisions that can significantly reduce the probability that total distributions will increase commensurately with longevity.

The final regulations identify several types of terms and provisions that can significantly reduce the probability that total distributions under the contract will increase commensurately with longevity. These terms and provisions include the availability of a cash surrender option, the availability of a loan secured by the contract, minimum payout provisions, maximum payout provisions, and provisions that allow decreasing payouts. Subject to limited exceptions, the presence of any of these terms or provisions causes an annuity contract to fail to qualify for the exception in section 1275(a)(1)(B)(i). The list of identified terms and provisions in the final regulations is not exclusive. A contract fails to qualify for the exception in section 1275(a)(1)(B)(i) if the contract contains any other term or provision that can significantly reduce the probability that total distributions under the contract will increase commensurately with longevity.

#### *Cash Surrender Options and Loans Secured by the Contract*

If the holder of an annuity contract can exchange or surrender all or part of the contract for a distribution or for distributions that are not contingent on life, the holder's decision whether, and when, to exchange or surrender the contract can render the life contingency insignificant. Similarly, if the holder of an annuity contract can borrow against the contract, the holder's decision whether, and when, to borrow can have a comparable effect. The final regulations, therefore, provide that, if either the issuer or a person acting in concert with the issuer explicitly or implicitly makes available either a cash surrender option or a loan secured by the contract, then the contract contains a term that can significantly reduce the probability that total distributions on the contract will increase commensurately with longevity. That availability, therefore, causes the contract to fail to qualify for the exception in section 1275(a)(1)(B)(i).

#### *Minimum Payout Provisions*

If an annuity contract guarantees that a minimum amount will be distributed regardless of the death of the individual (or individuals) over whose life (or lives) payments are to be made, the minimum amount is not subject to the life contingency. In addition, the larger the minimum amount relative to aggregate expected distributions over the remaining (joint) life expectancy of the annuitant (or annuitants), the less likely it is that total distributions under the contract will increase commensurately with the longevity of the annuitant (or annuitants). A sufficiently large minimum amount renders the life contingency virtually meaningless. For example, consider a contract that provides for monthly distributions to begin on the annuity starting date and to extend for the longer of the life of the annuitant or 20 years, regardless of the annuitant's age. If the annuitant has a life expectancy as of the annuity starting date of 5 years, it is likely that distributions will be made for exactly 20 years, regardless of when the annuitant dies. In this case, although the form of the contract indicates that it depends on life, the existence of the minimum payout provision significantly reduces the probability that total distributions under the contract will depend on longevity.

Because the existence of a minimum payout provision can significantly reduce the probability that total distributions under the contract will increase commensurately with longevity, the existence of any such provision generally causes the contract to fail to qualify for the exception in section 1275(a)(1)(B)(i). The final regulations provide only two exceptions to this general rule. First, an annuity contract does not fail to be described in section 1275(a)(1)(B)(i) merely because it contains a minimum payout provision that guarantees a death benefit no greater than the unrecovered consideration paid for the contract. Second, an annuity contract does not fail to be described in section 1275(a)(1)(B)(i) merely because the contract provides that, after annuitization, distributions may be guaranteed to continue for a term certain that is no longer than one-half of the period of time from the annuity starting date to the expected date of the "terminating death."

The terminating death is the annuitant death that, in general, causes annuity payments to cease under the contract. The expected date of the terminating death is determined as of the annuity starting date with respect to all then-surviving annuitants by reference to the applicable mortality table prescribed under section 417(e)(3)(A)(ii)(I). See Rev. Rul. 95-6, 1995-1 C.B. 80, for the applicable mortality table that is prescribed for this purpose as of January 8, 1998.

#### *Maximum Payout Provisions*

If an annuity contract provides that distributions will cease if an annuitant lives beyond a specified date, total distributions under the contract may fail to increase commensurately with longevity. If the specified date is relatively early (when compared to the annuitant's life expectancy as of the annuity starting date), its existence significantly reduces the probability that total distributions under the contract will increase commensurately with longevity. Conversely, if the specified date is very late (when compared to the annuitant's life expectancy as of the annuity starting date), its existence does not significantly reduce the probability that total distributions under the contract will increase commensurately with longevity. For example, consider an annuity contract that provides that distributions will be made for the life of the annuitant but in no event for more than 30 years. If the annuitant is a relatively young person, this maximum payout provision significantly attenuates the life contingency. On the other hand, if the annuitant has a life expectancy of 10 years on the annuity starting date, this maximum payout provision is unlikely to determine the total distributions.

Because the existence of a maximum payout provision can significantly reduce the probability that total distributions under the contract will increase commensurately with longevity, the final regulations provide that the existence of any maximum payout provision generally causes the contract to fail to qualify for the exception in section 1275(a)(1)(B)(i). There is a single exception to this general rule in cases where the period of time between the annuity starting date and the date after which (under the maximum pay-



out provision) no distributions will be made is at least twice as long as the period of time from the annuity starting date to the expected date of the terminating death.

#### *Decreasing Payout Provisions*

The connection between longevity and distributions under an annuity contract is apparent in the case of a contract that provides for equal annual distributions for life. For each year the annuitant lives, another equal distribution is made. If distributions decrease over time, this connection can become attenuated. Consider an annuity contract that provides for a distribution upon annuitization of \$100,000 followed by annual distributions of \$10 per year for life. Although this contract provides for periodic distributions for life, the pattern of the distributions causes the amount distributed to fail to adequately reflect longevity.

If the amount of distributions under an annuity contract during any contract year may be less than the amount of distributions during the preceding year, the final regulations provide that this possibility can significantly reduce the probability that total distributions under the contract will increase commensurately with longevity. Thus, the existence of this possibility generally causes the contract to fail to qualify for the exception in section 1275(a)(1)(B)(i). There is a single exception to this general rule for certain variable distributions that are closely tied to investment experience, inflation, or similar fluctuating criteria. In these cases, because the provision can result in comparable increases in the amount of distributions, the possibility that the distributions may decline from year to year does not significantly reduce the probability that total distributions under the contract will increase commensurately with longevity.

#### *Private and Charitable Gift Annuity Contracts*

Several commentators expressed concerns that the proposed regulations, if finalized, would alter the tax treatment traditionally afforded private and charitable gift annuity contracts. Private annuity contracts are typically issued as consideration in intra-family transfers of property. Charitable gift annuity contracts are typi-

cally issued by charitable institutions in exchange for a transfer of cash or property greater in value than the annuity. Because these contracts may call for periodic distributions to begin more than one year after they are issued, there was concern that, under the proposed regulations, they might fail to qualify for the exception in section 1275(a)(1)(B)(i).

In many cases, distributions under private and charitable gift annuity contracts are entirely contingent on the survival of one individual (or a small number of individuals). These contracts are not indebtedness under general principles of federal income tax law and, therefore, are not within the definition of *debt instrument* in section 1275(a)(1)(A). For almost all other private and charitable gift annuities, the final regulations address the concern by removing the requirement that the distributions begin within one year of the date of the initial investment in the contract.

#### *Annuity Contracts Issued by Foreign Insurance Companies*

One commentator asked the IRS to clarify the treatment of annuity contracts issued by a foreign insurance company that does not engage in a trade or business within the United States. In particular, the commentator asked for guidance on whether such an annuity contract qualifies under section 1275(a)(1)(B)(ii), which provides a broad exception from the definition of *debt instrument* for certain annuity contracts issued by "an insurance company subject to tax under subchapter L." These regulations do not address the exception in section 1275(a)(1)(B)(ii). The Treasury and the IRS, however, welcome comments on the proper scope of that provision.

#### *Certain Compensation Arrangements*

Several commentators questioned whether the proposed regulations apply to certain compensation arrangements whose distributions are taxed under section 72. The timing rules of the OID provisions do not apply to compensation arrangements that are subject to other specific Code or regulations provisions. For example, if an arrangement is described in the first sentence of section 404(a) or in section 404(b) or if amounts under the arrangement are includible under sections 83, 403, or 457, or under §1.61-2, the

arrangement is not subject to the OID timing provisions. See also §§1.1273-2(d) and 1.1274-1(a), under which a nonpublicly traded debt instrument issued for services has an issue price equal to its stated redemption price at maturity and, therefore, has no OID.

#### *Special Analyses*

It has been determined that this Treasury decision is not a significant regulatory action as defined in EO 12866. Therefore, a regulatory assessment is not required. It has also been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) does not apply to these regulations. Because the notice of proposed rulemaking preceding the regulations was issued prior to March 29, 1996, the Regulatory Flexibility Act (5 U.S.C. chapter 6) does not apply. Pursuant to section 7805(f) of the Code, the notice of proposed rulemaking was submitted to the Small Business Administration for comment on its impact on small business.

#### *Drafting Information*

Several persons from the Office of Chief Counsel and the Treasury department participated in developing these regulations.

\* \* \* \* \*

#### *Adoption of Amendments to the Regulations*

Accordingly, 26 CFR part 1 is amended as follows:

#### PART 1—INCOME TAXES

Paragraph 1. The authority citation for part 1 is amended by removing the entries for "Sections 1.1271-1 through 1.1274-5" and "Sections 1.1275-1 through 1.1275-5" and adding the following entries in numerical order to read as follows:

Authority: 26 U.S.C. 7805 \* \* \*  
Section 1.1271-1 also issued under 26 U.S.C. 1275(d).  
Section 1.1272-1 also issued under 26 U.S.C. 1275(d).  
Section 1.1272-2 also issued under 26 U.S.C. 1275(d).  
Section 1.1272-3 also issued under 26 U.S.C. 1275(d).  
Section 1.1273-1 also issued under 26

U.S.C. 1275(d).

Section 1.1273-2 also issued under 26 U.S.C. 1275(d).

Section 1.1274-1 also issued under 26 U.S.C. 1275(d).

Section 1.1274-2 also issued under 26 U.S.C. 1275(d).

Section 1.1274-3 also issued under 26 U.S.C. 1275(d).

Section 1.1274-4 also issued under 26 U.S.C. 1275(d).

Section 1.1274-5 also issued under 26 U.S.C. 1275(d). \* \* \*

Section 1.1275-1 also issued under 26 U.S.C. 1275(d).

Section 1.1275-2 also issued under 26 U.S.C. 1275(d).

Section 1.1275-3 also issued under 26 U.S.C. 1275(d).

Section 1.1275-4 also issued under 26 U.S.C. 1275(d).

Section 1.1275-5 also issued under 26 U.S.C. 1275(d). \* \* \*

Par. 2. Section 1.1271-0 is amended by adding entries for paragraphs (i) through (j)(8) to §1.1275-1 to read as follows:

*§1.1271-0 Original issue discount; effective dates; table of contents.*

\* \* \* \* \*

*§1.1275-1 Definitions.*

\* \* \* \* \*

(i) [Reserved]

(j) Life annuity exception under section 1275(a)(1)(B)(i).

(1) Purpose.

(2) General rule.

(3) Availability of a cash surrender option.

(4) Availability of a loan secured by the contract.

(5) Minimum payout provision.

(6) Maximum payout provision.

(7) Decreasing payout provision.

(8) Effective dates.

\* \* \* \* \*

Par. 3. Section 1.1275-1 is amended by:

1. Revising the first sentence of paragraph (d).

2. Adding and reserving paragraph (i).

3. Adding paragraph (j).

The revision and additions read as follows:

*§1.1275-1 Definitions.*

\* \* \* \* \*

(d) *Debt instrument.* Except as provided in section 1275(a)(1)(B) (relating to certain annuity contracts; see paragraph (j) of this section), debt instrument means any instrument or contractual arrangement that constitutes indebtedness under general principles of Federal income tax law (including, for example, a certificate of deposit or a loan). \* \* \*

\* \* \* \* \*

(i) [Reserved]

(j) *Life annuity exception under section 1275(a)(1)(B)(i)*—(1) *Purpose.* Section 1275(a)(1)(B)(i) excepts an annuity contract from the definition of *debt instrument* if section 72 applies to the contract and the contract depends (in whole or in substantial part) on the life expectancy of one or more individuals. This paragraph (j) provides rules to ensure that an annuity contract qualifies for the exception in section 1275(a)(1)(B)(i) only in cases where the life contingency under the contract is real and significant.

(2) *General rule*—(i) *Rule.* For purposes of section 1275(a)(1)(B)(i), an annuity contract depends (in whole or in substantial part) on the life expectancy of one or more individuals only if—

(A) The contract provides for periodic distributions made not less frequently than annually for the life (or joint lives) of an individual (or a reasonable number of individuals); and

(B) The contract does not contain any terms or provisions that can significantly reduce the probability that total distributions under the contract will increase commensurately with the longevity of the annuitant (or annuitants).

(ii) *Terminology.* For purposes of this paragraph (j):

(A) *Contract.* The term *contract* includes all written or unwritten understandings among the parties as well as any person or persons acting in concert with one or more of the parties.

(B) *Annuitant.* The term *annuitant* refers to the individual (or reasonable number of individuals) referred to in paragraph (j)(2)(i)(A) of this section.

(C) *Terminating death.* The phrase *terminating death* refers to the annuitant death that can terminate periodic distribu-

tions under the contract. (See paragraph (j)(2)(i)(A) of this section.) For example, if a contract provides for periodic distributions until the later of the death of the last-surviving annuitant or the end of a term certain, the terminating death is the death of the last-surviving annuitant.

(iii) *Coordination with specific rules.* Paragraphs (j)(3) through (7) of this section describe certain terms and conditions that can significantly reduce the probability that total distributions under the contract will increase commensurately with the longevity of the annuitant (or annuitants). If a term or provision is not specifically described in paragraphs (j)(3) through (7) of this section, the annuity contract must be tested under the general rule of paragraph (j)(2)(i) of this section to determine whether it depends (in whole or in substantial part) on the life expectancy of one or more individuals.

(3) *Availability of a cash surrender option*—(i) *Impact on life contingency.* The availability of a cash surrender option can significantly reduce the probability that total distributions under the contract will increase commensurately with the longevity of the annuitant (or annuitants). Thus, the availability of any cash surrender option causes the contract to fail to be described in section 1275(a)(1)(B)(i). A cash surrender option is available if there is reason to believe that the issuer (or a person acting in concert with the issuer) will be willing to terminate or purchase all or a part of the annuity contract by making one or more payments of cash or property (other than an annuity contract described in this paragraph (j)).

(ii) *Examples.* The following examples illustrate the rules of this paragraph (j)(3):

*Example 1.* (i) *Facts.* On March 1, 1998, X issues a contract to A for cash. The contract provides that, effective on any date chosen by A (the annuity starting date), X will begin equal monthly distributions for A's life. The amount of each monthly distribution will be no less than an amount based on the contract's account value as of the annuity starting date, A's age on that date, and permanent purchase rate guarantees contained in the contract. The contract also provides that, at any time before the annuity starting date, A may surrender the contract to X for the account value less a surrender charge equal to a declining percentage of the account value. For this purpose, the initial account value is equal to the cash invested. Thereafter, the account value increases annually by at least a minimum guaranteed rate.

(ii) *Analysis.* The ability to obtain the account value less the surrender charge, if any, is a cash surrender option. This ability can significantly reduce

the probability that total distributions under the contract will increase commensurately with A's longevity. Thus, the contract fails to be described in section 1275(a)(1)(B)(i).

*Example 2.* (i) *Facts.* On March 1, 1998, X issues a contract to B for cash. The contract provides that beginning on March 1, 1999, X will distribute to B a fixed amount of cash each month for B's life. Based on X's advertisements, marketing literature, or illustrations or on oral representations by X's sales personnel, there is reason to believe that an affiliate of X stands ready to purchase B's contract for its commuted value.

(ii) *Analysis.* Because there is reason to believe that an affiliate of X stands ready to purchase B's contract for its commuted value, a cash surrender option is available within the meaning of paragraph (j)(3)(i) of this section. This availability can significantly reduce the probability that total distributions under the contract will increase commensurately with B's longevity. Thus, the contract fails to be described in section 1275(a)(1)(B)(i).

(4) *Availability of a loan secured by the contract—(i) Impact on life contingency.* The availability of a loan secured by the contract can significantly reduce the probability that total distributions under the contract will increase commensurately with the longevity of the annuitant (or annuitants). Thus, the availability of any such loan causes the contract to fail to be described in section 1275(a)(1)-(B)(i). A loan secured by the contract is available if there is reason to believe that the issuer (or a person acting in concert with the issuer) will be willing to make a loan that is directly or indirectly secured by the annuity contract.

(ii) *Example.* The following example illustrates the rules of this paragraph (j)(4):

*Example.* (i) *Facts.* On March 1, 1998, X issues a contract to C for \$100,000. The contract provides that, effective on any date chosen by C (the annuity starting date), X will begin equal monthly distributions for C's life. The amount of each monthly distribution will be no less than an amount based on the contract's account value as of the annuity starting date, C's age on that date, and permanent purchase rate guarantees contained in the contract. From marketing literature circulated by Y, there is reason to believe that, at any time before the annuity starting date, C may pledge the contract to borrow up to \$75,000 from Y. Y is acting in concert with X.

(ii) *Analysis.* Because there is reason to believe that Y, a person acting in concert with X, is willing to lend money against C's contract, a loan secured by the contract is available within the meaning of paragraph (j)(4)(i) of this section. This availability can significantly reduce the probability that total distributions under the contract will increase commensurately with C's longevity. Thus, the contract fails to be described in section 1275(a)(1)(B)(i).

(5) *Minimum payout provision—(i) Im-*

*pact on life contingency.* The existence of a minimum payout provision can significantly reduce the probability that total distributions under the contract will increase commensurately with the longevity of the annuitant (or annuitants). Thus, the existence of any minimum payout provision causes the contract to fail to be described in section 1275(a)(1)(B)(i).

(ii) *Definition of minimum payout provision.* A minimum payout provision is a contractual provision (for example, an agreement to make distributions over a term certain) that provides for one or more distributions made—

(A) After the terminating death under the contract; or

(B) By reason of the death of any individual (including distributions triggered by or increased by terminal or chronic illness, as defined in section 101(g)(1)(A) and (B)).

(iii) *Exceptions for certain minimum payouts—(A) Recovery of consideration paid for the contract.* Notwithstanding paragraphs (j)(2)(i)(A) and (j)(5)(i) of this section, a contract does not fail to be described in section 1275(a)(1)(B)(i) merely because it provides that, after the terminating death, there will be one or more distributions that, in the aggregate, do not exceed the consideration paid for the contract less total distributions previously made under the contract.

(B) *Payout for one-half of life expectancy.* Notwithstanding paragraphs (j)(2)(i)(A) and (j)(5)(i) of this section, a contract does not fail to be described in section 1275(a)(1)(B)(i) merely because it provides that, if the terminating death occurs after the annuity starting date, distributions under the contract will continue to be made after the terminating death until a date that is no later than the halfway date. This exception does not apply unless the amounts distributed in each contract year will not exceed the amounts that would have been distributed in that year if the terminating death had not occurred until the expected date of the terminating death, determined under paragraph (j)(5)(iii)(C) of this section.

(C) *Definition of halfway date.* For purposes of this paragraph (j)(5)(iii), the halfway date is the date halfway between the annuity starting date and the expected date of the terminating death, determined as of the annuity starting date, with re-

spect to all then-surviving annuitants. The expected date of the terminating death must be determined by reference to the applicable mortality table prescribed under section 417(e)(3)(A)(ii)(I).

(iv) *Examples.* The following examples illustrate the rules of this paragraph (j)(5):

*Example 1.* (i) *Facts.* On March 1, 1998, X issues a contract to D for cash. The contract provides that, effective on any date D chooses (the annuity starting date), X will begin equal monthly distributions for the greater of D's life or 10 years, regardless of D's age as of the annuity starting date. The amount of each monthly distribution will be no less than an amount based on the contract's account value as of the annuity starting date, D's age on that date, and permanent purchase rate guarantees contained in the contract.

(ii) *Analysis.* A minimum payout provision exists because, if D dies within 10 years of the annuity starting date, one or more distributions will be made after D's death. The minimum payout provision does not qualify for the exception in paragraph (j)(5)(iii)(B) of this section because D may defer the annuity starting date until his remaining life expectancy is less than 20 years. If, on the annuity starting date, D's life expectancy is less than 20 years, the minimum payout period (10 years) will last beyond the halfway date. The minimum payout provision, therefore, can significantly reduce the probability that total distributions under the contract will increase commensurately with D's longevity. Thus, the contract fails to be described in section 1275(a)(1)(B)(i).

*Example 2.* (i) *Facts.* The facts are the same as in *Example 1* of this paragraph (j)(5)(iv) except that the monthly distributions will last for the greater of D's life or a term certain. D may choose the length of the term certain subject to the restriction that, on the annuity starting date, the term certain must not exceed one-half of D's life expectancy as of the annuity starting date. The contract also does not provide for any adjustment in the amount of distributions by reason of the death of D or any other individual, except for a refund of D's aggregate premium payments less the sum of all prior distributions under the contract.

(ii) *Analysis.* The minimum payout provision qualifies for the exception in paragraph (j)(5)(iii)(B) of this section because distributions under the minimum payout provision will not continue past the halfway date and the contract does not provide for any adjustments in the amount of distributions by reason of the death of D or any other individual, other than a guaranteed death benefit described in paragraph (j)(5)(iii)(A) of this section. Accordingly, the existence of this minimum payout provision does not prevent the contract from being described in section 1275(a)(1)(B)(i).

(6) *Maximum payout provision—(i) Impact on life contingency.* The existence of a maximum payout provision can significantly reduce the probability that total distributions under the contract will increase commensurately with the



longevity of the annuitant (or annuitants). Thus, the existence of any maximum payout provision causes the contract to fail to be described in section 1275(a)(1)(B)(i).

(ii) *Definition of maximum payout provision.* A maximum payout provision is a contractual provision that provides that no distributions under the contract may be made after some date (the termination date), even if the terminating death has not yet occurred.

(iii) *Exception.* Notwithstanding paragraphs (j)(2)(i)(A) and (j)(6)(i) of this section, an annuity contract does not fail to be described in section 1275(a)(1)(B)(i) merely because the contract contains a maximum payout provision, provided that the period of time from the annuity starting date to the termination date is at least twice as long as the period of time from the annuity starting date to the expected date of the terminating death, determined as of the annuity starting date, with respect to all then-surviving annuitants. The expected date of the terminating death must be determined by reference to the applicable mortality table prescribed under section 417(e)(3)(A)(ii)(I).

(iv) *Example.* The following example illustrates the rules of this paragraph (j)(6):

*Example.* (i) *Facts.* On March 1, 1998, X issues a contract to E for cash. The contract provides that beginning on April 1, 1998, X will distribute to E a fixed amount of cash each month for E's life but that no distributions will be made after April 1, 2018. On April 1, 1998, E's life expectancy is 9 years.

(ii) *Analysis.* A maximum payout provision exists because if E survives beyond April 1, 2018, E will receive no further distributions under the contract. The period of time from the annuity starting date (April 1, 1998) to the termination date (April 1, 2018) is 20 years. Because this 20-year period is more than twice as long as E's life expectancy on April 1, 1998, the maximum payout provision qualifies for the exception in paragraph (j)(6)(iii) of this section. Accordingly, the existence of this maximum payout provision does not prevent the contract from being described in section 1275(a)(1)(B)(i).

(7) *Decreasing payout provision—(i) General rule.* If the amount of distributions during any contract year (other than the last year during which distributions are made) may be less than the amount of distributions during the preceding year, this possibility can significantly reduce the probability that total distributions under the contract will increase commensurately with the longevity of the annuitant (or annuitants). Thus, the existence

of this possibility causes the contract to fail to be described in section 1275(a)(1)(B)(i).

(ii) *Exception for certain variable distributions.* Notwithstanding paragraph (j)(7)(i) of this section, if an annuity contract provides that the amount of each distribution must increase and decrease in accordance with investment experience, cost of living indices, or similar fluctuating criteria, then the possibility that the amount of a distribution may decrease for this reason does not significantly reduce the probability that the distributions under the contract will increase commensurately with the longevity of the annuitant (or annuitants).

(iii) *Examples.* The following examples illustrate the rules of this paragraph (j)(7):

*Example 1.* (i) *Facts.* On March 1, 1998, X issues a contract to F for \$100,000. The contract provides that beginning on March 1, 1999, X will make distributions to F each year until F's death. Prior to March 1, 2009, distributions are to be made at a rate of \$12,000 per year. Beginning on March 1, 2009, distributions are to be made at a rate of \$3,000 per year.

(ii) *Analysis.* If F is alive in 2009, the amount distributed in 2009 (\$3,000) will be less than the amount distributed in 2008 (\$12,000). The exception in paragraph (j)(7)(ii) of this section does not apply. The decrease in the amount of any distributions made on or after March 1, 2009, can significantly reduce the probability that total distributions under the contract will increase commensurately with F's longevity. Thus, the contract fails to be described in section 1275(a)(1)(B)(i).

*Example 2.* (i) *Facts.* On March 1, 1998, X issues a contract to G for cash. The contract provides that, effective on any date G chooses (the annuity starting date), X will begin monthly distributions to G for G's life. Prior to the annuity starting date, the account value of the contract reflects the investment return, including changes in the market value, of an identifiable pool of assets. When G chooses the annuity starting date, G must also choose whether the distributions are to be fixed or variable. If fixed, the amount of each monthly distribution will remain constant at an amount that is no less than an amount based on the contract's account value as of the annuity starting date, G's age on that date, and permanent purchase rate guarantees contained in the contract. If variable, the monthly distributions will fluctuate to reflect the investment return, including changes in the market value, of the pool of assets. The monthly distributions under the contract will not otherwise decline from year to year.

(ii) *Analysis.* Because the only possible year-to-year declines in annuity distributions are described in paragraph (j)(7)(ii) of this section, the possibility that the amount of distributions may decline from the previous year does not reduce the probability that total distributions under the contract will increase commensurately with G's longevity. Thus, the potential fluctuation in the annuity distributions

does not cause the contract to fail to be described in section 1275(a)(1)(B)(i).

(8) *Effective dates—(i) In general.* Except as provided in paragraph (j)(8)(ii) and (iii) of this section, this paragraph (j) is applicable for interest accruals on or after February 9, 1998 on annuity contracts held on or after February 9, 1998.

(ii) *Grandfathered contracts.* This paragraph (j) does not apply to an annuity contract that was purchased before April 7, 1995. For purposes of this paragraph (j)(8), if any additional investment in such a contract is made on or after April 7, 1995, and the additional investment is not required to be made under a binding contractual obligation that was entered into before April 7, 1995, then the additional investment is treated as the purchase of a contract after April 7, 1995.

(iii) *Contracts consistent with the provisions of FI-33-94, published at 1995-1 C.B. 920.* See § 601.601(d)(2)(ii)(b) of this chapter. This paragraph (j) does not apply to a contract purchased on or after April 7, 1995, and before February 9, 1998, if all payments under the contract are periodic payments that are made at least annually for the life (or lives) of one or more individuals, do not increase at any time during the term of the contract, and are part of a series of distributions that begins within one year of the date of the initial investment in the contract. An annuity contract that is otherwise described in the preceding sentence does not fail to be described therein merely because it also provides for a payment (or payments) made by reason of the death of one or more individuals.

Michael P. Dolan,  
Deputy Commissioner of  
Internal Revenue.

Approved December 19, 1997.

Donald C. Lubick,  
Acting Assistant Secretary of  
the Treasury.

(Filed by the Office of the Federal Register on January 7, 1998, 8:45 a.m., and published in the issue of the Federal Register for January 8, 1998, 63 F.R. 1054)

Section 1288.—Treatment of  
Original Issue Discount on Tax-  
Exempt Obligations

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of March 1998. See Rev. Rul. 98-11, page 13.

## Section 1397E.—Credit to Holders of Qualified Zone Academy Bonds

26 CFR 1.1397E-1T: *Qualified Zone Academy Bonds (temporary).*

T.D. 8755

DEPARTMENT OF THE TREASURY  
Internal Revenue Service  
26 CFR Part 1

### Qualified Zone Academy Bonds

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Temporary regulations.

SUMMARY: This document contains temporary regulations relating to the federal income tax treatment of qualified zone academy bonds. The regulations in this document provide needed guidance to holders and issuers of qualified zone academy bonds. The text of the temporary regulations also serves as the text of REG-119449-97, page 35 of this Bulletin.

DATES: These regulations are effective January 1, 1998.

FOR FURTHER INFORMATION CONTACT: Timothy L. Jones, (202) 622-3980 (not a toll-free number).

#### SUPPLEMENTARY INFORMATION:

##### *Background*

Section 226(a) of the Taxpayer Relief Act of 1997, Pub. L. No. 105-34, 111 Stat. 788 (1997), amended the Internal Revenue Code (Code) by redesignating section 1397E as section 1397F and adding a new section 1397E. Section 1397E authorizes a new type of debt instrument known as a qualified zone academy bond.

##### *Explanation of provisions*

##### *In general*

A qualified zone academy bond is a

taxable bond issued by a state or local government the proceeds of which are used to improve certain eligible public schools. In lieu of receiving periodic interest payments from the issuer, an eligible holder of a qualified zone academy bond is generally allowed annual federal income tax credits while the bond is outstanding. These credits compensate the holder for lending money to the issuer and function as payments of interest on the bond.

These temporary regulations provide rules for the federal income tax treatment of qualified zone academy bonds. These regulations generally treat the allowance of the credit as if it were a payment of interest on the bond. These regulations also provide rules to determine (1) the credit rate, (2) the discount rate used to present value private business contributions, and (3) the discount rate used to determine the maximum term of a qualified zone academy bond.

These regulations generally do not provide guidance on the statutory requirements that must be met for a bond to qualify as a qualified zone academy bond. Section 1397E(d) sets forth a number of detailed requirements that must be met for a bond to qualify as a qualified zone academy bond. In particular, section 1397E(d)-(1)(C) requires the issuer to certify (1) that it has written assurances that private entities have agreed to contribute a certain level of goods or services to the qualified zone academy, and (2) that it has the written approval of the eligible local education agency for the bond issuance. The Treasury and the IRS intend that these certifications will be respected and may be relied on by taxpayers if the certifications are reasonably made.

In addition, section 1397E(d)(1)(A) requires that 95 percent or more of the proceeds of an issue of qualified zone academy bonds are to be used for a qualified purpose described in section 1397E(d)(5) with respect to a qualified zone academy as defined in section 1397E(d)(4). The Treasury and the IRS intend that the qualified purposes set forth in section 1397E(d)(5) are to be broadly interpreted. The Treasury and the IRS also intend that, if an issuer is unable to actually spend 95 percent or more of the proceeds of a qualified zone academy bond for a qualified purpose, the issuer may apply remedial

actions similar to the remedial actions set forth in §1.142-2 to preserve the qualification of a bond. Further, the Treasury and the IRS intend that taxpayers may rely on an issuer's determination that a public school (or academic program within a public school) is a qualified zone academy for purposes of section 1397E(d)(4) if the determination has a reasonable basis. The Treasury and IRS request comments on whether additional guidance is needed with respect to the section 1397E(d) requirements.

Section 1397E(e) imposes a national limitation on the amount of qualified zone academy bonds that can be issued. For 1998 and 1999, the IRS will publish a revenue procedure allocating the national limitation among the States and the possessions.

##### *The credit allowance*

A qualified zone academy bond provides an annual federal income tax credit to certain holders. Under the regulations, the credit is deemed paid on the *credit allowance date*—the last day of each one-year accrual period on the bond. A taxpayer that receives a credit on a credit allowance date may use the credit to offset its income tax liability for the taxable year that includes the credit allowance date.

There are two limitations on the use of the credit. First, only eligible taxpayers holding the bond on the credit allowance date may claim the credit. Section 1397E(d)(6) defines an *eligible taxpayer* as a bank, an insurance company, or a corporation actively engaged in the business of lending money. Second, an eligible taxpayer may claim the credit only to the extent the taxpayer has a tax liability for the taxable year that includes the credit allowance date. See section 1397E(c). The credit is nonrefundable.

##### *Treatment of the credit as interest*

The regulations treat the credit on a qualified academy zone bond as if it were a payment of qualified stated interest. This treatment effectively conforms the treatment of the credit with the treatment of interest income on debt instruments. Thus, for example, a holder that uses an accrual method of accounting accrues the credit amount over the one-year accrual period that ends on the credit allowance date.

### *Adjustment when credit is limited or disallowed*

In two situations the holder of a qualified zone academy bond on a credit allowance date will not be able to use some or all of the credit to offset its tax liability. First, if the holder on a credit allowance date is not an eligible taxpayer (a bank, insurance company, or corporation actively engaged in the business of lending money), no credit is allowed. Second, the amount of the credit may exceed the income tax liability of a holder that is an eligible taxpayer. In this second case, because the credit is nonrefundable, some or all of the credit will not be used.

In these situations, the regulations allow the holder to adjust its income by deducting the amount of the unused credit. This deduction is allowed for the taxable year that includes the credit allowance date. The Treasury and the IRS request comments on whether this adjustment works appropriately when an eligible taxpayer holds a qualified zone academy bond on the credit allowance date but has an income tax liability (determined without regard to the credit) that is less than the amount of the credit.

### *Credit rate*

Section 1397E(b)(2) authorizes the Treasury to establish a single, uniform credit rate that will permit the issuance of qualified zone academy bonds without discount and without interest cost to the issuer. This section also requires the Treasury to adjust the credit allowance rate on a monthly basis to reflect changes in market interest rates.

It is not possible to determine a uniform credit rate that would permit all qualified zone academy bonds to be issued at par. Some borrowers are less creditworthy than others and, therefore, borrow at less favorable rates. In addition, because section 1397E(b)(2) requires the Secretary to set the credit rate in the month before the bond is issued, changes in market interest rates between the time the rate is set and the time a qualified zone academy bond is issued can result in a bond being issued at a price that is different than par.

The regulations provide a single monthly rate that will minimize the discount or premium on qualified zone academy bonds.

Specifically, the regulations provide that the credit rate is 110 percent of the long-term applicable Federal rate (AFR), compounded annually, for the month of issuance. Tying the credit rate to the AFR ensures that the rate will be adjusted on a monthly basis to reflect changes in market interest rates. In addition, the Treasury and the IRS believe the 10 percent spread over the long-term AFR is appropriate, in part, because qualified zone academy bonds bear more credit and liquidity risk than long-term Treasury bonds.

### *Maximum term*

Section 1397E(d)(3) sets out a formula for determining the maximum term of a qualified zone academy bond. The formula requires the use of a discount rate equal to the average annual interest rate of tax-exempt obligations having a term of ten years or more. Because there is no readily available source for this discount rate, the regulations provide that the discount rate is 110 percent of the long-term adjusted AFR, compounded semi-annually. The long-term adjusted AFR is published on a monthly basis and is designed to reflect the current yield of a risk-free tax-exempt obligation having a term of 9 years or more.

### *Taxable obligation*

It is possible that some qualified zone academy bonds may either (1) provide for payments of stated interest, or (2) be issued at a discount. The Treasury and the IRS have determined that qualified zone academy bonds are not obligations the interest on which is excluded from gross income under section 103(a). There are a number of reasons for treating a qualified zone academy bond as a taxable obligation. For example, the requirement in section 1397E(g) that a holder include the allowed amount of the credit in gross income evidences an intention to treat qualified zone academy bonds as taxable, not tax-exempt, obligations.

### *Coordination with estimated tax rules*

The regulations do not address the estimated tax consequences of holding a qualified zone academy bond. The Treasury and the IRS request comments on whether there is a need to coordinate the regulations with the estimated tax rules

and, if so, how they might be coordinated.

### *Special Analyses*

It has been determined that this Treasury decision is not a significant regulatory action as defined in EO 12866. Therefore, a regulatory assessment is not required. It also has been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) does not apply to these regulations and, because the regulations do not impose a collection of information on small entities, the Regulatory Flexibility Act (5 U.S.C. chapter 6) does not apply. Pursuant to section 7805(f) of the Internal Revenue Code, these temporary regulations will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on their impact on small business.

### *Drafting Information*

Several persons from the Office of Chief Counsel and the Treasury Department participated in developing these regulations.

\* \* \* \* \*

### *Adoption of Amendments to the Regulations*

Accordingly, 26 CFR part 1 is amended as follows:

### **PART 1—INCOME TAXES**

Paragraph 1. The authority citation for part 1 is amended by adding an entry in numerical order to read as follows:

Authority: 26 U.S.C. 7805 \* \* \*

Section 1.1397E-1T also issued under 26 U.S.C. 1397E(b) and 1397E(d). \* \* \*

Par. 2. Section 1.1397E-1T is added to read as follows:

#### *§1.1397E-1T Qualified zone academy bonds (temporary).*

(a) *Overview.* In general, a qualified zone academy bond is a taxable bond issued by a state or local government the proceeds of which are used to improve certain eligible public schools. An eligible taxpayer that holds a qualified zone academy bond generally is allowed annual federal income tax credits in lieu of periodic interest payments. These credits compensate the eligible taxpayer for lending money to the issuer and function as



payments of interest on the bond. Accordingly, this section generally treats the allowance of a credit as if it were a payment of interest on the bond. In addition, this section provides rules to determine the credit rate, the present value of qualified contributions from private entities, and the maximum term of a qualified zone academy bond.

(b) *Credit rate.* The credit rate for a qualified zone academy bond is equal to 110 percent of the long-term applicable Federal rate (AFR), compounded annually, for the month in which the bond is issued. The Internal Revenue Service publishes this figure each month in a revenue ruling that is published in the Internal Revenue Bulletin. See §601.601(d)(2)-(ii)(b) of this Chapter.

(c) *Private business contribution requirement.* To determine the present value (as of the issue date) of qualified contributions from private entities under section 1397E(d)(2), the issuer must use a reasonable discount rate. The credit rate determined under paragraph (b) of this section is a reasonable discount rate.

(d) *Maximum term.* The maximum term for a qualified zone academy bond is determined under section 1397E(d)(3) by using a discount rate equal to 110 percent of the long-term adjusted AFR, compounded semi-annually, for the month in which the bond is issued. The Internal Revenue Service publishes this figure each month in a revenue ruling that is published in the Internal Revenue Bulletin. See §601.601(d)(2)(ii)(b) of this Chapter.

(e) *Tax credit—(1) Eligible taxpayer.* An eligible taxpayer (within the meaning of section 1397E(d)(6)) that holds a qualified zone academy bond on a credit allowance date is allowed a tax credit against the federal income tax imposed on the taxpayer for the taxable year that includes the credit allowance date. The amount of the credit is equal to the product of the credit rate and the outstanding principal amount of the bond on the credit allowance date. The credit is subject to a limitation based on the eligible taxpayer's income tax liability. See section 1397E(c).

(2) *Ineligible taxpayer.* A taxpayer that is not an eligible taxpayer is not allowed a credit.

(f) *Treatment of the allowance of the*

*credit as a payment of interest—(1) General rule.* The holder of a qualified zone academy bond must treat the bond as if it pays qualified stated interest (within the meaning of §1.1273-1(c)) on each credit allowance date. The amount of the deemed payment of interest on each credit allowance date is equal to the product of the credit rate and the outstanding principal amount of the bond on that date. Thus, for example, if the holder uses an accrual method of accounting, the holder must accrue as interest income the amount of the credit over the one-year accrual period that ends on the credit allowance date.

(2) *Adjustment if the holder cannot use the credit to offset a tax liability.* If a holder holds a qualified zone academy bond on the credit allowance date but cannot use all or a portion of the credit to reduce its income tax liability (for example, because the holder is not an eligible taxpayer or because the limitation in section 1397E(c) applies), the holder is allowed a deduction for the taxable year that includes the credit allowance date. The amount of the deduction is equal to the amount of the unused credit deemed paid on the credit allowance date.

(g) *Not a tax-exempt obligation.* A qualified zone academy bond is not an obligation the interest on which is excluded from gross income under section 103(a).

(h) *Cross-references.* See section 171 and the regulations thereunder for rules relating to amortizable bond premium. See §1.61-7(c) for the seller's treatment of a bond sold between interest payment dates (credit allowance dates) and §1.61-7(d) for the buyer's treatment of a bond purchased between interest payment dates (credit allowance dates).

(i) [Reserved]

(j) *Effective date.* This section applies to a qualified zone academy bond issued on or after January 1, 1998.

Michael P. Dolan,  
Deputy Commissioner of  
Internal Revenue.

Approved December 19, 1997.

Donald C. Lubick,  
Acting Assistant Secretary of  
the Treasury.

(Filed by the Office of the Federal Register on January 6, 1998, 8:45 a.m., and published in the issue of the Federal Register for January 7, 1998, 63 F.R. 671)

## Section 1502.—Regulations

26 CFR 1.1502-3: Consolidated investment credit.

T.D. 8751

DEPARTMENT OF THE TREASURY  
Internal Revenue Service  
26 CFR Part 1

### Consolidated Returns— Limitations on the Use of Certain Losses and Credits; Overall Foreign Loss Accounts

AGENCY: Internal Revenue Service  
(IRS), Treasury.

ACTION: Final and temporary regulations.

SUMMARY: This document contains temporary amendments to the consolidated return regulations. The temporary amendments govern the use of tax credits of a consolidated group and its members. They also concern the recharacterization of certain foreign source income because of a prior overall foreign loss. The text of the temporary regulations also serves as the text of REG-104062-97, page 34 in this Bulletin.

DATES: These amendments are effective January 12, 1998. For dates of application, see the **Effective Dates** portion of the preamble under SUPPLEMENTARY INFORMATION. FOR FURTHER INFORMATION CONTACT: Concerning the temporary regulations in general, Roy A. Hirschhorn, (202) 622-7770; concerning amendments related to foreign tax credits and foreign losses, Seth Goldstein (202) 622-3850.

### SUPPLEMENTARY INFORMATION:

#### Background and Explanation of Provisions

#### A. In General

On June 27, 1996, the IRS and Trea-

sury published in the **Federal Register** a Treasury decision containing temporary regulations which, in part, provide rules governing the absorption of certain tax attribute carryovers and carrybacks from separate return limitation years (SRLYs), terminate the consolidated return change of ownership rules, and make minor changes to the computation of net section 1231 gains and losses for a group. The Treasury decision adopted without substantive change rules that were proposed in 1991. The 1996 temporary regulations are effective for consolidated return years beginning on or after January 1, 1997.

The 1996 temporary regulations significantly modify SRLY loss rules which had been in place since 1966. The 1966 SRLY rules employed a member-by-member and year-by-year approach to determine the limitation on SRLY attributes. The 1996 temporary regulations adopted a subgroup and cumulative approach. See the preamble to NPRM for CO-078-90 (56 F.R. 4228), reprinted at 1991-1 C.B. 757. The 1996 temporary regulations, however, only apply the new approach to net operating loss and net capital loss carryovers and carrybacks. They do not change regulations containing limitations on the absorption of the following other tax attribute carryovers and carrybacks from SRLYs: general business credits (§1.1502-3), foreign tax credits (§1.1502-4), and overall foreign losses (OFLs) (§1.1502-9).

On December 30, 1992, the IRS and Treasury published in the **Federal Register** a notice of proposed rulemaking containing rules regarding a group's computation of its alternative minimum tax and minimum tax credits. See 57 F.R. 62251, as corrected by 58 F.R. 8027, reprinted at 1993-1 C.B. 799. The proposed regulations (Prop. Reg. §1.1502-55) do not address the application of SRLY limitations to the minimum tax credit.

#### *B. Extension of 1996 Principles*

The IRS and Treasury believe that it is appropriate to apply a single set of SRLY principles to all attributes that are subject to SRLY limitations. Unnecessary complexity would result from applying different principles to different attributes. In addition, the IRS and Treasury believe that the subgroup and cumulative principles embodied in the 1996 temporary regula-

tions more appropriately reflect the use of attributes brought into a consolidated group by SRLY members than do the member-by-member and year-by-year rules of the 1966 regulations. Accordingly, this document extends the principles of the 1996 temporary regulations to the general business credit and the minimum tax credit. In doing so, the IRS and Treasury have not attempted to address the issues which some commentators have raised with respect to the application of the SRLY limitations in general. Rather, those issues will be addressed in connection with a review of comments received in response to the 1991 proposed regulations, the 1996 temporary regulations and to the temporary regulations contained in this document, prior to the expiration of the 1996 temporary regulations in 1999.

In general, a group may include a member's SRLY credits in the applicable consolidated section 38 credit or minimum tax credit for a consolidated return year based on the member's contributions to the consolidated section 38(c) or consolidated section 53(c) limitation for all consolidated return years. The contribution is based on the aggregate of the member's share of the group's tax liability for relevant years. Such share is measured under the principles of section 1552 and the percentage method under §1.1502-33(d)(3), assuming a 100% allocation of any decreased tax liability. The contribution may be a negative number, for example, for a year in which the overall loss of the member offsets the income of other members. In the case of the minimum tax credit, the temporary regulations provide an adjustment to avoid double counting for years in which the SRLY member contributes to the group's AMT liability.

This document also adds an example to §1.1502-21T(c)(1) and §1.1502-23T(b). The examples assist taxpayers in computing their cumulative registers by illustrating the concept of cumulative contribution to consolidated net capital gain and consolidated taxable income and the character of section 1231 items for purposes of the relevant registers.

#### *C. Treatment of Foreign Tax Credits. OFLs and SLLs*

In considering the application of the new SRLY principles in the temporary

regulations to credits in general, the IRS and Treasury considered extending these principles to foreign tax credits (FTCs), and to those losses associated with the FTC regime, namely, overall foreign losses (OFLs) and separate limitation losses (SLLs). The IRS and Treasury were concerned that continued application of the principles of the 1966 regulations (member-by-member and year-by-year) to these foreign attributes, and especially to OFL and SLL accounts, could lead to inappropriate results. Taxpayers might adopt structures in an attempt to achieve indefinite postponement of the recapture of SRLY OFLs and SLLs. Such postponement would frustrate the neutrality principle that the SRLY rules are intended to serve (i.e., that the decision to join a new affiliated group should generally be unaffected by considerations relating to the absorption of pre-affiliation attributes).

While it was clear that application of the 1966 principles to OFLs and SLLs should not continue, it was less clear that application of the subgroup and cumulative principles of the temporary regulations would address all concerns. The subgroup and cumulative principles are meant to more closely parallel the absorption that would have taken place had the member (or subgroup) continued filing separate returns. The interaction of the FTC regime (with its multiple baskets) and other provisions of the Internal Revenue Code affecting international transactions, such as, for example, section 864(e)(1) which allocates the interest expense of a member to income in various baskets based on the group's asset allocation, can make it difficult to determine what the member has contributed to the group. Furthermore, even with the adoption of the subgroup and cumulative principles, taxpayers would likely have the ability to transfer controlled foreign corporations to new members or to cause operations to be assumed by new members, thereby delaying indefinitely the recapture of OFLs and SLLs subject to SRLY.

The IRS and Treasury have decided, therefore, that the principles of SRLY are not served by applying SRLY limitations to OFL and SLL accounts of corporations joining a group. Thus, this document amends portions of §1.1502-9 to eliminate SRLY restrictions on OFL recapture. A new member's SRLY OFL account will



be added to the similar consolidated OFL account of the group. For similar reasons, and to avoid an imbalance in the application of the FTC regime, the IRS and Treasury have decided that SRLY limitations should not apply to FTCs of corporations joining a group. This document also amends §1.1502-4(f) such that, in the future, there will be no SRLY limitation on the use of a member's separate year FTCs by the group. Other limitations on the use of separate year FTCs continue to apply. See, for example, section 383.

These amendments apply to corporations becoming members of a group. They do not address the apportionment of attributes to corporations that cease to be members of a group. Therefore, they only partially address the issues presented in applying the OFL and SLL rules to groups. In particular, the IRS and Treasury recognize that the retention of the notional account system of §1.1502-9 for members that cease to be members is inconsistent with the rationale for removing the SRLY limitation for FTCs and OFL accounts. The notional account system may result in a member's taking from the group an OFL or SLL account that is unrelated to the member's activities and future income. Accordingly, the IRS and Treasury expect in the near future to issue additional amendments to §1.1502-9. One approach under consideration would replace the notional account system with a new system that apportions accounts to a departing member based on the member's share of group assets that would produce income subject to recapture.

#### *Effective Date*

The temporary amendments are applicable to consolidated return years beginning on or after January 1, 1997.

#### *Special Analyses*

It has been determined that this Treasury decision is not a significant regulatory action as defined in EO 12866. Therefore, a regulatory assessment is not required. It is hereby certified that these regulations do not have a significant economic impact on a substantial number of small entities. This certification is based on the fact that these regulations principally affect persons filing consolidated federal income tax returns that have carryover or carryback of credits from sepa-

rate return limitation years. Available data indicates that many consolidated return filers are large companies (not small businesses). In addition, the data indicates that an insubstantial number of consolidated return filers that are smaller companies have credit carryovers or carrybacks, and thus even fewer of these filers have credit carryovers or carrybacks that are subject to the separate return limitation year rules. Therefore, a Regulatory Flexibility Analysis under the Regulatory Flexibility Act (5 U.S.C. chapter 6) is not required. Pursuant to section 7805(f) of the Internal Revenue Code, the notice of proposed rulemaking accompanying these regulations is being sent to the Small Business Administration for comment on their impact on small businesses.

#### *Drafting Information*

The principal author of these regulations is Roy A. Hirschhorn of the Office of Assistant Chief Counsel (Corporate). Other personnel from the IRS and Treasury participated in their development.

\* \* \* \* \*

#### *Adoption of Amendments to the Regulations*

Accordingly, 26 CFR part 1 is amended as follows:

#### **PART 1—INCOME TAXES**

Paragraph 1. The authority citation for part 1 is amended by adding entries in numerical order to read in part as follows:

Authority: 26 U.S.C. 7805 \* \* \*

Section 1.1502-3T also issued under 26 U.S.C. 1502.

Section 1.1502-9T also issued under 26 U.S.C. 1502. \* \* \*

Section 1.1502-55T also issued under 26 U.S.C. 1502. \* \* \*

Par. 2. Section 1.1502-3 is amended by adding paragraphs (c)(3) and (e)(3) and by designating the text following the heading of paragraph (d) as paragraph (d)(1) and adding paragraph (d)(2) to read as follows:

#### *§1.1502-3 Consolidated investment credit.*

\* \* \* \* \*

(c) \* \* \*

(3) *Special effective date.* This para-

graph (c) applies to consolidated return years beginning before January 1, 1997. See §1.1502-3T(c) for the rule that limits the group's use of a section 38 credit carryover or carryback from a SRLY for a consolidated return year beginning on or after January 1, 1997. For taxable years not subject to §1.1502-3T(c), prior law applies. See §1.1502-3 (c) in effect prior to January 12, 1998, (§1.1502-3(c) as contained in the 26 CFR part 1 edition revised April 1, 1997) for prior law.

(d) *Examples.* (1) \* \* \*

(2) Examples (2) and (3) of this paragraph (d) do not apply to consolidated return years beginning on or after January 1, 1997. For consolidated return years beginning on or after January 1, 1997, see §1.1502-3T(d).

(e) \* \* \*

(3) *Special effective date.* This paragraph (e) applies to a consolidated return change of ownership that occurred before January 1, 1997.

\* \* \* \* \*

Par. 3. Section 1.1502-3T is added to read as follows:

#### *§1.1502-3T Consolidated investment credit (temporary).*

(a) and (b) [Reserved]. For further guidance, see §1.15023(a) and (b).

(c) *Limitation on tax credit carryovers and carrybacks from separate return limitation years*—(1) *General rule.* The aggregate of a member's unused section 38 credits arising in SRLYs that are included in the consolidated section 38 credits for all consolidated return years of the group may not exceed—

(i) The aggregate for all consolidated return years of the member's contributions to the consolidated section 38(c) limitation for each consolidated return year; reduced by

(ii) The aggregate of the member's section 38 credits arising and absorbed in all consolidated return years (whether or not absorbed by the member).

(2) *Computational rules*—(i) *Member's contribution to the consolidated section 38(c) limitation.* If the consolidated section 38(c) limitation for a consolidated return year is determined by reference to the consolidated tentative minimum tax (see section 38(c)(1)(A)), then a member's contribution to the con-

consolidated section 38(c) limitation for such year equals the member's share of the consolidated net income tax minus the member's share of the consolidated tentative minimum tax. If the consolidated section 38(c) limitation for a consolidated return year is determined by reference to the consolidated net regular tax liability (see section 38(c)(1)(B)), then a member's contribution to the consolidated section 38(c) limitation for such year equals the member's share of the consolidated net income tax minus 25 percent of the quantity which is equal to so much of the member's share of the consolidated net regular tax liability less its portion of the \$25,000 amount specified in section 38(c)(1)(B). The group computes the member's shares by applying to the respective consolidated amounts the principles of section 1552 and the percentage method under §1.1502-33(d)(3), assuming a 100% allocation of any decreased tax liability. The group must make proper adjustments so that taxes and credits not taken into ac-

count in computing the limitation under section 38(c) are not taken into account in computing the member's share of the consolidated net income tax, etc. (See, for example, the taxes described in section 26(b) that are disregarded in computing regular tax liability.) Also, the group may apportion all or a part of the \$25,000 amount (or lesser amount if reduced by section 38(c)(3)) for any year to one or more members.

(ii) *Years included in computation.* For purposes of computing the limitation under this paragraph (c), the consolidated return years of the group include only those years, including the year to which a credit is carried, that the member has been continuously included in the group's consolidated return, but exclude—

(A) For carryovers, any years ending after the year to which the credit is carried; and

(B) For carrybacks, any years ending after the year in which the credit arose.

(iii) *Subgroups and successors.* The SRLY subgroup principles under

§1.1502-21T(c)(2) apply for purposes of this paragraph (c). The predecessor and successor principles under §1.1502-21T(f) also apply for purposes of this paragraph (c).

(3) *Effective date.* This paragraph (c) applies to consolidated return years beginning on or after January 1, 1997. However, a group does not take into account a consolidated taxable year beginning before January 1, 1997, in determining a member's (or subgroup's) contributions to the consolidated section 38(c) limitation under this paragraph (c). See also §1.1502-3 (c).

(d) *Example.* (1) The following example illustrates the provisions of paragraph (c) of this section:

*Example.* (i) P, the common parent of the P group, acquires all the stock of T at the beginning of Year 2. T carries over an unused section 38 general business credit from Year 1 of \$100,000. The table below shows the group's net consolidated income tax, consolidated tentative minimum tax, and consolidated net regular tax liabilities, and T's share of such taxes computed under the principles of section

Year 2	Group	P's share of col. 1	T's share of col. 1
1. consolidated taxable income	\$2,000	\$1,200	\$800
2. consolidated net regular tax	\$700	\$420	\$280
3. consolidated alternative minimum taxable income	\$4,000	\$3,200	\$800
4. consolidated tentative minimum tax	\$800	\$640	\$160
5. consolidated net income tax	\$800	\$520	\$280
6. greater of line 4 or 25% of (line 2 minus \$25,000) for the group	\$800		
7. consolidated §38(c) limitation (line 5 minus line 6)	\$0		

1552 and the percentage method under §1.1502-33 (d) (3), assuming a 100% allocation of any decreased tax liability, for Year 2. (The effects of the lower section 11 brackets are ignored, there are no other tax credits affecting a group amount or member's share, and \$1,000s are omitted.)

(ii) The amount of T's unused section 38 credits from Year 1 that are included in the consolidated section 38 credits for Year 2 may not exceed T's contribution to the consolidated section 38(c) limitation. For Year 2, the group determines the consolidated section 38(c) limitation by reference to consolidated

tentative minimum tax for Year 2. Therefore, T's contribution to the consolidated section 38(c) limitation for Year 2 equals its share of consolidated net income tax minus its share of consolidated tentative minimum tax. T's contribution is \$280,000 minus \$160,000, or \$120,000. However, because the group

Year 3	Group	P's share of col. 1	T's share of col. 1
1. consolidated taxable income	\$1,200	\$1,500	\$(300)
2. consolidated net regular tax	\$420	\$525	\$(105)
3. consolidated alternative minimum taxable income	\$1,500	\$1,700	\$(200)
4. consolidated tentative minimum tax	\$300	\$340	\$(40)
5. consolidated net income tax	\$420	\$525	\$(105)
6. greater of line 4 or 25% of (line 2 minus \$25,000) for the group	\$300		
7. consolidated §38(c) limitation (line 5 minus line 6)	\$120		

has a consolidated section 38 limitation of zero, it may not include any of T's unused section 38 credits in the consolidated section 38 credits for Year 2.

(iii) The following table shows similar information for the group for Year 3:

(iv) The amount of T's unused section 38 credits from Year 1 that are included in the consolidated section 38 credits for Year 3 may not exceed T's aggregate contribution to the consolidated section 38(c) limitation for Years 2 and 3. For Year 3, the group determines the consolidated section 38(c) limitation by reference to the consolidated tentative minimum tax for Year 3. Therefore, T's contribution to the consolidated section 38(c) limitation for Year 3 equals its share of consolidated net income tax minus its share of consolidated tentative minimum tax. Applying the principles of section 1552 and §1.1502-33(d) (taking into account, for example, that T's positive earnings and profits adjustment under §1.1502-33(d) reflects its losses actually absorbed by the group), T's contribution is \$(105,000) minus \$(40,000), or \$(65,000). T's /aggregate contributions to the consolidated section 38(c) limitation for Years 2 and 3 is \$120,000 + \$(65,000), or \$55,000. The group may include \$55,000 of T's Year 1 unused section 38 credits in its consolidated section 38 tax credit in Year 3.

(2) This paragraph (d) applies to consolidated return years beginning on or after January 1, 1997. See also §1.1502-3(d) for years prior to January 1, 1997.

(e) and (f) [Reserved]. For further guidance, see §1.1502-3(e) and (f).

Par. 4. Section 1.1502-4 is amended by adding new paragraphs (f) (3) and (g) (3) to read as follows:

*§1.1502-4 Consolidated foreign tax credit.*

\* \* \* \* \*

(f) \* \* \*

(3) *Special effective date ending SRLY limitation.* See §1.1502-4T(f) for the rule that ends the SRLY limitation with respect to foreign tax credits for consolidated return years beginning on or after January 1, 1997.

(g) \* \* \*

(3) *Special effective date for CRCO limitation.* See §1.1502-4T(g)(3) for the rule that ends the CRCO limitation with respect to a consolidated return change of ownership that occurred on or after January 1, 1997.

\* \* \* \* \*

Par. 5. Section 1.1502-4T is added to read as follows:

*§1.1502-4T Consolidated foreign tax credit (temporary).*

(a) through (e) [Reserved]. For further guidance, see §1.1502-4 (a) through (e).

(f) *Limitation on unused foreign tax carryover or carryback from separate return limitation years.* Section 1.1502-4(f) does not apply to consolidated return years beginning on or after January 1, 1997. For consolidated return years beginning on or after January 1, 1997, a group shall include an unused foreign tax of a member arising in a SRLY without regard to the contribution of the member to consolidated tax liability for the consolidated return year.

(g)(1) and (2) [Reserved]. For further guidance, see §1.1502-4 (g) (1) and (2).

(g)(3) *Special effective date for CRCO limitation.* Section 1.1502-4(g) applies to a consolidated return change of ownership that occurred before January 1, 1997.

Par. 6. In §1.1502-9, paragraph (a) is amended by adding a sentence at the end of the paragraph to read as follows:

*§1.1502-9 Application of overall foreign loss recapture rules to corporations filing consolidated returns.*

(a) *In general.* \*\*\* See §1.1502-9T(b)(1)(v) for the rule that ends the separate return limitation year limitation for consolidated return years beginning on or after January 1, 1997.

\* \* \* \* \*

Par. 7. Section 1.1502-9T is added to read as follows:

*§1.1502-9T Application of overall foreign loss recapture rules to corporations filing consolidated returns (temporary).*

(a) and (b) introductory text through (b)(1)(iv) [Reserved]. For further guidance, see §1.1502-9 (a) and (b) introductory text through (b) (1) (iv).

(b)(1)(v) *Special effective date for SRLY limitation.* Sections 1.1502-9(b)(1)(iii) and (iv) apply only to consolidated return years beginning before January 1, 1997. For consolidated return years beginning on or after January 1, 1997, the rules of §1.1502-9(b)(1)(ii) shall apply to overall foreign losses from separate return years that are separate return limitation years. For purposes of applying §1.1502-9(b)(1)(ii) in such years, the group treats a member with a balance in an overall foreign loss account from a separate return limitation year on the first day of the first

consolidated return year beginning on or after January 1, 1997, as a corporation joining the group on such first day. An overall foreign loss that is part of a net operating loss or net capital loss carryover from a separate return limitation year of a member that is absorbed in a consolidated return year beginning on or after January 1, 1997, shall be added to the appropriate consolidated overall foreign loss account in the year that it is absorbed. For consolidated return years beginning on or after January 1, 1997, similar principles apply to overall foreign losses when there has been a consolidated return change of ownership (regardless of when the change of ownership occurred).

(b)(2) through (f) [Reserved]. For further guidance, see §1.1502-9(b)(2) through (f).

Par. 8. In §1.1502-21T, paragraph (c) (1) (iii) is amended by adding *Example 5* to read as follows:

*§1.1502-21T Net operating losses (temporary).*

\* \* \* \* \*

(c) \* \* \*

(1) \* \* \*

(iii) \* \* \*

*Example 5. Dual SRLY registers and accounting for SRLY losses actually absorbed.* (i) In Year 1, T sustains a \$100 net operating loss and a \$50 net capital loss. At the beginning of Year 2, T becomes a member of the P group. Both of T's carryovers from Year 1 are subject to SRLY limits under this paragraph (c) and §1.1502-22T(c). The members of the P group contribute the following to the consolidated taxable income for Years 2 and 3 (computed without regard to T's CNOL deduction under §1.1502-21T or net capital loss carryover under §1.1502-22T):

		P	T
Year 1 (SRLY)	ordinary		(100)
	capital		(50)
Year 2	ordinary	30	60
	capital	0	(20)
	ordinary	10	40
Year 3	capital	0	30

(ii) For Year 2, the group computes separate SRLY limits for each of T's SRLY carryovers from Year 1. Under normal Internal Revenue Code rules, it determines its ability to use its capital loss carryover before it determines its ability to use its ordinary loss carryover. Under section 1211, because the group has no Year 2 capital gain, it cannot absorb any capital losses in Year 2. T's Year 1 net capital loss and the



group's Year 2 consolidated net capital loss fall of which is attributable to T) are carried over to Year 3.

(iii) Under this section, the aggregate amount of T's \$100 NOL carryover from Year 1 that may be included in the CNOL deduction of the group for Year 2 may not exceed \$60—the amount of the consolidated taxable income computed by reference only to T's items, including losses and deductions to the extent actually absorbed (i.e., \$60 of ordinary income for Year 2). Thus, the group may include \$60 of T's ordinary loss carryover from Year 1 in its Year 2 CNOL deduction. T carries over its remaining \$40 of its Year 1 loss to Year 3.

(iv) For Year 3, the group again computes separate SRLY limits for each of T's SRLY carryovers from Year 1. The group has consolidated net capital gain (without taking into account a net capital loss carryover deduction) of \$30. Under 1.150222T(c), the aggregate amount of T's \$50 capital loss carryover from Year 1 that may be included in computing the group's consolidated net capital gain for all years of the group (here Years 2 and 3) may not exceed \$30 (the aggregate consolidated net capital gain computed by reference only to T's items, including losses and deductions actually absorbed (i.e., \$30 of capital gain in Year 3)). Thus, the group may include \$30 of T's Year 1 capital loss carryover in its computation of consolidated net capital gain for Year 3, which offsets the group's capital gains for Year 3. T carries over its remaining \$20 of its Year 1 loss to Year 4. The group carries over the Year 2 consolidated net capital loss to Year 4.

(v) Under this section, the aggregate amount of T's NOL carryover from Year 1 that may be included in the CNOL deduction of the group for Years 2 and 3 may not exceed \$100, which is the amount of the aggregate consolidated taxable income for Years 2 and 3 determined by reference only to T's items, including losses and deductions actually absorbed (i.e., \$60 of ordinary income in Year 2 plus \$40 of ordinary income, \$30 of capital gain, and \$30 of SRLY capital losses actually absorbed in Year 3). The group included \$60 of T's ordinary loss carryover in its Year 2 CNOL deduction. It may include the remaining \$40 of the carryover in its Year 3 CNOL deduction.

\* \* \* \* \*

Par. 9. In §1.1502–23T, paragraphs (b) and (c) are redesignated as paragraphs (c) and (d), and a new paragraph (b) is added to read as follows:

*§1.1502–23T Consolidated net section 1231 gain or loss (temporary).*

\* \* \* \* \*

(b) *Example.* The following example illustrates the provisions of this section:

*Example. Use of SRLY registers with net gains and net losses under section 1231.* (i) In Year 1, T sustains a \$20 net capital loss. At the beginning of Year 2, T becomes a member of the P group. T's capital loss carryover from Year 1 is subject to SRLY limits under §1.1502–22T(c). The members of the P group contribute the following to the consolidated taxable income for Year 2 (computed without regard to T's net capital loss carryover under §1.1502–22T):

		P	T
Year 1 (SRLY)	ordinary		
	capital		(20)
Year 2	ordinary	10	20
	capital	70	0
	§1231	(60)	30

(ii) Under section 1231, if the section 1231 losses for any taxable year exceed the section 1231 gains for such taxable year, such gains and losses are treated as ordinary gains or losses. Because the P group's section 1231 losses, \$(60), exceed the section 1231 gains, \$30, the P group's net loss is treated as ordinary loss. T's net section 1231 gain has the same character as the P group's consolidated net section 1231 loss, so T's \$30 of section 1231 income is treated as ordinary income for purposes applying §1.1502–22T(c). Under §1.1502–22T(c), the group's consolidated net capital gain determined by reference only to T's items is \$0. None of T's capital loss carryover from Year 1 may be taken into account in Year 2.

Par. 10. Section 1.1502–55T is added under the undesignated center heading “Special Taxes and Taxpayers” to read as follows:

*§1.1502–55T Computation of alternative minimum tax of consolidated groups (temporary).*

(a) through (h)(3) [Reserved].

(h)(4) *Separate return year minimum tax credit.*

(i) and (ii) [Reserved].

(iii)(A) *Limitation on portion of separate return year minimum tax credit arising in separate return limitation years.* The aggregate of a member's minimum tax credits arising in SRLYs that are included in the consolidated minimum tax credits for all consolidated return years of the group may not exceed—

(1) The aggregate for all consolidated return years of the member's contributions to the consolidated section 53(c) limitation for each consolidated return year; reduced by

(2) The aggregate of the member's minimum tax credits arising and absorbed in all consolidated return years (whether or not absorbed by the member).

(B) *Computational rules—(1) Member's contribution to the consolidated section 53(c) limitation.* Except as provided in the special rule of paragraph (h)(4)(iii)–(B)(2) of this section, a member's contribution to the consolidated section 53(c)

limitation for a consolidated return year equals the member's share of the consolidated net regular tax liability minus its share of consolidated tentative minimum tax. The group computes the member's shares by applying to the respective consolidated amounts the principles of section 1552 and the percentage method under §1.1502–33(d)(3), assuming a 100% allocation of any decreased tax liability. The group makes proper adjustments so that taxes and credits not taken into account in computing the limitation under section 53(c) are not taken into account in computing the member's share of the consolidated net regular tax, etc. (See, for example, the taxes described in section 26(b) that are disregarded in computing regular tax liability.)

(2) *Adjustment for Year in which alternative minimum tax is paid.* For a consolidated return year for which consolidated tentative minimum tax is greater than consolidated regular tax liability, the group reduces the member's share of the consolidated tentative minimum tax by the member's share of the consolidated alternative minimum tax for the year. The group determines the member's share of consolidated alternative minimum tax for a year using the same method it uses to determine the member's share of the consolidated minimum tax credits for the year.

(3) *Years included in computation.* For purposes of computing the limitation under this paragraph (h)(4)(iii), the consolidated return years of the group include only those years, including the year to which a credit is carried, that the member has been continuously included in the group's consolidated return, but exclude any years after the year to which the credit is carried.

(4) *Subgroup principles.* The SRLY subgroup principles under §1.1502–21T(c)(2) apply for purposes of this paragraph (h)(4)(iii). The predecessor and successor principles under §1.1502–21T(f) also apply for purposes of this paragraph (h) (4) (iii).

(C) *Effective date.* This paragraph (h)(4)(iii) applies to consolidated return years beginning on or after January 1, 1997. However, a group does not take into account a consolidated taxable year beginning before January 1, 1997, in determining a member's (or subgroup's) contributions to the consolidated section

53(c) limitation under paragraph (h)(4)(iii) of this section.

Michael P. Dolan,  
*Deputy Commissioner of  
Internal Revenue.*

Approved December 11, 1997.

Donald C. Lubick,  
*Acting Assistant Secretary of  
the Treasury.*

(Filed by the Office of the Federal Register on January 9, 1998, 8:45 a.m., and published in the issue of the Federal Register for January 12, 1998, 63 F.R. 1740)

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## Section 7520.—Valuation Tables

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of March 1998. See Rev. Rul. 98–11, page 13.

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## Section 7872.—Treatment of Loans With Below-Market Interest Rates

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of March 1998. See Rev. Rul. 98–11, page 13.

## Part III. Administrative, Procedural, and Miscellaneous

26 CFR 601.105: Examination of returns and claims for refund, credit or abatement; determination of correct tax liability. (Also Part I, § 1361; 1.1361-1.)

Rev. Proc. 98-23

### SECTION 1. PURPOSE

This revenue procedure provides guidance on (1) the conversion of a qualified subchapter S trust (QSST) to an electing small business trust (ESBT), and (2) the conversion of an ESBT to a QSST.

### SECTION 2. BACKGROUND

Section 1361(a)(1) of the Internal Revenue Code defines an “S corporation,” with respect to any taxable year, as a small business corporation for which an S election is in effect for that year.

Section 1361(b) defines “small business corporation” as a domestic corporation that is not an ineligible corporation and that does not have (A) more than 75 shareholders, (B) as a shareholder a person (other than an estate, a trust described in § 1361(c)(2), or an organization described in § 1361(c)(6)) who is not an individual, (C) a nonresident alien as a shareholder, and (D) more than one class of stock.

Section 1361(d)(1)(A) provides that in the case of a QSST with respect to which a beneficiary makes an election under § 1361(d)(2), the trust will be treated as a trust described in § 1361(c)(2)(A)(i) (relating to trusts that may be shareholders of a small business corporation under § 1361(b)(1)).

Section 1361(d)(2)(C) provides that a QSST election under § 1361(d), once made, may be revoked only with the consent of the Secretary.

Section 1361(c)(2)(A)(v) provides that an ESBT (as defined in § 1361(e)) is a permitted S corporation shareholder.

Section 1361(e)(1)(B) provides that the term ESBT does not include any QSST if an election under § 1361(d)(2) applies to any corporation the stock of which is held by the trust.

Section 1361(e)(3) provides that an ESBT election under § 1361(e) applies to the taxable year of the trust for which made and all subsequent taxable years of

the trust unless revoked with the consent of the Secretary.

Section 1377(a) provides rules for determining a shareholder’s pro rata share of any item for any taxable year.

### SECTION 3. SCOPE

Section 4 of this revenue procedure provides guidance on how to convert a QSST to an ESBT. Section 5 of this revenue procedure provides guidance on how to convert an ESBT to a QSST. A trust that wishes to convert within 36 months of a previous conversion must submit an application for consent to revoke the QSST or ESBT election to the Internal Revenue Service in the form of a letter ruling request under Rev. Proc. 98-1, 1998-1 I.R.B. 7 (or its successor). The application must be signed by the current income beneficiary and the trustee.

This revenue procedure does not provide guidance on whether a trust qualifies as a QSST or an ESBT. In particular, the Internal Revenue Service is currently studying whether a trust qualifies as an ESBT if any portion of the trust is treated as owned by the grantor or another person under the provisions of subpart E (section 671 and following), part I, subchapter J, chapter 1 of the Internal Revenue Code.

### SECTION 4. CONVERSION OF A QSST TO AN ESBT

.01 *Prerequisites for Conversion from QSST to ESBT.* A trust is eligible to convert from a QSST to an ESBT if it meets the following requirements:

(1) The trust meets all of the requirements to be an ESBT under § 1361(e), except for the requirement under § 1361(e)-(1)(B) that the trust not have a QSST election in place under § 1361(d)(2).

(2) The trustee and the current income beneficiary of the trust make the ESBT election pursuant to section 4.02 of this revenue procedure with respect to the stock of each S corporation held by the trust.

(3) The trust has not converted from an ESBT to a QSST within the 36 month period preceding the effective date of the new ESBT election.

(4) Except as provided in section 6 of this revenue procedure, the date on

which the ESBT election is to be effective can not be more than 15 days and 2 months prior to the date on which the election is filed and can not be more than 12 months after the date on which the election is filed. If an election specifies an effective date more than 15 days and 2 months prior to the date on which the election is filed, it will be effective 15 days and 2 months prior to the date on which it is filed. If an election specifies an effective date more than 12 months after the date on which the election is filed, it will be effective 12 months after the date it is filed.

.02 *Procedural Requirements for Conversion from QSST to ESBT.*

The current income beneficiary and the trustee of the trust must sign an ESBT election and file it with the service center where the S corporation files its income tax return. This ESBT election must state at the top of the document “ATTENTION ENTITY CONTROL—CONVERSION OF A QSST TO AN ESBT PURSUANT TO REV. PROC. 98-23” and include all information otherwise required for an ESBT election (see Notice 97-12, 1997-3 I.R.B. 11). A separate election must be made with respect to the stock of each S corporation held by the trust.

.03 *Conversion from QSST to ESBT.*

Pursuant to § 1361(d)(2)(C), the consent of the Commissioner to revoke a QSST election as of the effective date of the ESBT election is hereby granted to any QSST that satisfies the requirements of sections 4.01 and 4.02 of this revenue procedure. For purposes of § 1377(a), the QSST will be treated as terminating its interest in the S corporation and the new ESBT will be treated as a new shareholder of the S corporation. The last day the QSST will be a shareholder is the day before the effective date of the ESBT election, and the new ESBT will be a shareholder beginning on the effective date of the ESBT election.

### SECTION 5. CONVERSION OF AN ESBT TO A QSST

.01 *Prerequisites for Conversion from ESBT to QSST.* A trust is eligible to convert from an ESBT to a QSST if it meets the following requirements:

(1) The trust meets all of the requirements to be a QSST under § 1361(d).

(2) The trustee and current income beneficiary of the trust make the QSST election pursuant to section 5.02 of this revenue procedure with respect to the stock of each S corporation held by the trust.

(3) The trust has not converted from a QSST to an ESBT within the 36 month period preceding the effective date of the new QSST election.

(4) Except as provided in section 6 of this revenue procedure, the date on which the QSST election is to be effective can not be more than 15 days and 2 months prior to the date on which the election is filed and can not be more than 12 months after the date on which the election is filed. If an election specifies an effective date more than 15 days and 2 months prior to the date on which the election is filed, it will be effective 15 days and 2 months prior to the date on which it is filed. If an election specifies an effective date more than 12 months after the date on which the election is filed, it will be effective 12 months after the date it is filed.

*.02 Procedural Requirements for Conversion from ESBT to QSST.*

The current income beneficiary and the trustee of the trust must sign a QSST election and file it with the service center where the S corporation files its income tax return. This QSST election must state at the top of the document "ATTENTION ENTITY CONTROL—CONVERSION OF AN ESBT TO A QSST PURSUANT TO REV. PROC. 98-23" and include all information otherwise required for a QSST election (see § 1.1361-1(j)(6) of the Income Tax Regulations). A separate election must be made with respect to the stock of each S corporation held by the trust.

*.03 Conversion from ESBT to QSST.*

Pursuant to § 1361(e)(3), the consent of the Commissioner to revoke an ESBT election as of the effective date of the QSST election is hereby granted to any ESBT that satisfies the requirements of sections 5.01 and 5.02 of this revenue procedure. For purposes of § 1377(a), the ESBT will be treated as terminating its interest in the S corporation and the new QSST will be treated as a new shareholder of the S corporation. The last day the ESBT will be a shareholder is the day

before the effective date of the QSST election, and the new QSST will be a shareholder beginning on the effective date of the QSST election.

## SECTION 6. EFFECTIVE DATE

This revenue procedure is effective for taxable years beginning after December 31, 1996. An election can be made effective as of any date on or after January 1, 1997, and before March 9, 1998, if it is filed not more than 15 days and 2 months after March 9, 1998.

## PAPERWORK REDUCTION ACT

The collection of information contained in this revenue procedure has been reviewed and approved by the Office of Management and Budget in accordance with the Paperwork Reduction Act (44 U.S.C. 3507) under control number 1545-1591.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection of information displays a valid control number.

The collections of information in this revenue procedure are in sections 4.02 and 5.02. This information is required by the Internal Revenue Service to assure compliance with the new provisions of the Small Business Job Protection Act of 1996. The likely respondents are business or other for-profit institutions.

The estimated total annual reporting burden is 2500 hours.

The estimated average annual burden per respondent is one hour. The estimated number of respondents is 2500.

The estimated frequency of responses is once.

Books or records relating to a collection of information must be retained as long as their contents may become material in the administration of any internal revenue law. Generally tax returns and tax return information are confidential, as required by 26 U.S.C. 6103.

## DRAFTING INFORMATION

The principal author of this revenue procedure is Steven R. Schneider of the Office of Assistant Chief Counsel (Passthroughs and Special Industries). For further information regarding this revenue procedure contact Steven R.

Schneider at (202) 622-3060 (not a toll-free call).

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*26 CFR 601.105: Examination of returns and claims for refund, credit, or abatement; determination of correct tax liability. (Also Part I, § 280F; 1.280F-7)*

Rev. Proc. 98-24

## SECTION 1. PURPOSE

This revenue procedure provides limitations on depreciation deductions for owners of passenger automobiles designed to be propelled primarily by electricity and built by an original equipment manufacturer (electric automobiles) first placed in service after August 5, 1997, and before January 1, 1998, and the amounts to be included in income by lessees of electric automobiles first leased after August 5, 1997, and before January 1, 1998. The tables detailing these depreciation limitations and lessee inclusion amounts reflect the tripling of the base depreciation limits provided in § 280F(a)-(1)(A) required by § 280F(a)(1)(C) of the Internal Revenue Code, and the automobile price inflation adjustments required by § 280F(d)(7).

## SECTION 2. BACKGROUND

For owners of automobiles, § 280F(a)-(1)(A) imposes dollar limitations on the depreciation deduction for both the year that the automobile is placed in service and each succeeding year. Section 280F(a)(1)(C)(ii) provides that in the case of a "purpose built passenger vehicle" (as defined in § 4001(a)(2)(C)(ii)), each of the annual limitations specified in § 280F(a)(1)(A) shall be tripled. Section 4001(a)(2)(C)(ii) provides that a purpose built passenger vehicle means a passenger vehicle produced by an original equipment manufacturer and designed so that the vehicle may be propelled primarily by electricity.

Section 280F(d)(7) requires the amounts allowable as depreciation deductions under § 280F(a)(1)(A) to be increased by a price inflation adjustment amount for passenger automobiles placed in service after calendar year 1988.

For leased automobiles, § 280F(c) requires a reduction in the deduction al-



lowed to the lessee of the automobile. The reduction must be substantially equivalent to the limitations on the depreciation deductions imposed on owners of automobiles. Under § 1.280F-7(a), this reduction requires the lessees to include in gross income an inclusion amount determined by applying a formula to the amount obtained from a table. The table shows inclusion amounts for a range of fair market values for each tax year after the automobile is first leased.

### SECTION 3. SCOPE AND OBJECTIVE

01. The limitations on depreciation deductions in section 4.02 of this revenue procedure apply to electric automobiles (other than leased electric automobiles) that are placed in service after August 5, 1997, and before January 1, 1998, and continue to apply for each tax year that the automobile remains in service.

02. The table in section 4.03 of this revenue procedure applies to leased electric automobiles for which the lease term begins after August 5, 1997, and before January 1, 1998. Lessees of such automobiles must use this table to determine the inclusion amount for each tax year during which the automobile is leased.

03. See Rev. Proc. 96-25, 1996-1 C.B. 681, for depreciation limitations and income inclusion amounts for electric automobiles first purchased or leased before January 1, 1997, and Rev. Proc. 97-20, 1997-11 I.R.B. 10, for depreciation limitations and income inclusion amounts for electric automobiles first purchased or leased on or after January 1, 1997, and before August 6, 1997.

### SECTION 4. APPLICATION

01. A taxpayer placing an electric automobile in service for the first time after August 5, 1997, and before January 1, 1998, is limited to the depreciation deduction shown in Table 1 of section 4.02(2) of this revenue procedure. A taxpayer first leasing an electric automobile after August 5, 1997, and before January 1, 1998, must use Table 2 in section 4.03 of this revenue procedure to determine the inclusion amount that is added to gross income.

02. *Limitations on Depreciation Deductions for Certain Automobiles.*

(1) *Amount of the Inflation Adjustment.* Under § 280F(d)(7)(B)(i), the automobile price inflation adjustment for any calendar year is the percentage (if any) by which the CPI automobile component for October of the preceding calendar year exceeds the CPI automobile component for October 1987. The term "CPI automobile component" is defined in § 280F(d)(7)(B)(ii) as the "automobile component" of the Consumer Price Index for all Urban Consumers published by the Department of Labor (the CPI). The new car component of the CPI was 115.2 for October 1987 and 141.5 for October 1996. The October 1996 index exceeded the October 1987 index by 26.3. The Internal Revenue Service has, therefore, determined that the automobile price inflation adjustment for 1997 is 22.83 percent ( $26.3/115.2 \times 100\%$ ). This adjustment is applicable to all automobiles that are first placed in service in calendar year 1997. To determine the dollar limitations applicable to an electric automobile first placed

in service after August 5, 1997, and before January 1, 1998, the dollar limitations in § 280F(a)(1)(A) are tripled in accordance with § 280F(a)(1)(C) and are then multiplied by a factor of 0.2283; the resulting increases, after rounding to the nearest \$100, are added to the tripled 1988 limitations to give the depreciation limitations for 1997.

(2) *Amount of the Limitation.* For electric automobiles placed in service after August 5, 1997, and before January 1, 1998, Table 1 contains the dollar amount of the depreciation limitations for each tax year.

REV. PROC. 98-24 TABLE 1	
DEPRECIATION LIMITATIONS FOR ELECTRIC AUTOMOBILE FIRST PLACED IN SERVICE AFTER AUGUST 5, 1997, AND BEFORE JANUARY 1, 1998	
<i>Tax Year</i>	<i>Amount</i>
1st Tax Year	\$9,480
2nd Tax Year	\$15,100
3rd Tax Year	\$9,050
Each Succeeding Year	\$5,425

03. *Inclusions in Income of Lessees of Electric Automobiles.*

The inclusion amounts for electric automobiles first leased after August 5, 1997, and before January 1, 1998, are calculated under the procedures described in § 1.280F-7(a) of the Income Tax regulations. Table 2 of this revenue procedure is the applicable table to be used in applying those procedures.

REV. PROC. 98-24 TABLE 2						
DOLLAR AMOUNTS FOR ELECTRIC AUTOMOBILES WITH A LEASE TERM BEGINNING AFTER AUGUST 5, 1997, AND BEFORE JANUARY 1, 1998						
Fair Market Value of Automobile		Tax Year During Lease				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
\$ 47,000	48,000	1	4	7	9	11
48,000	49,000	9	22	33	41	48
49,000	50,000	17	40	60	73	84
50,000	51,000	25	58	87	104	122
51,000	52,000	34	75	114	136	159
52,000	53,000	42	93	140	169	195
53,000	54,000	50	111	167	200	232
54,000	55,000	58	129	194	232	269



## REV. PROC. 98-24 TABLE 2—Continued

DOLLAR AMOUNTS FOR ELECTRIC AUTOMOBILES  
WITH A LEASE TERM BEGINNING AFTER AUGUST 5, 1997,  
AND BEFORE JANUARY 1, 1998

Fair Market Value of Automobile		Tax Year During Lease				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
55,000	56,000	66	147	220	264	306
56,000	57,000	74	165	247	296	342
57,000	58,000	83	183	273	328	379
58,000	59,000	91	201	300	359	417
59,000	60,000	99	219	326	392	453
60,000	62,000	111	246	366	440	508
62,000	64,000	128	282	419	503	582
64,000	66,000	144	318	472	567	656
66,000	68,000	160	354	525	631	730
68,000	70,000	177	389	579	695	803
70,000	72,000	193	425	632	759	876
72,000	74,000	209	461	686	822	950
74,000	76,000	226	497	738	887	1,023
76,000	78,000	242	533	792	950	1,097
78,000	80,000	259	568	845	1,014	1,171
80,000	85,000	287	632	938	1,125	1,300
85,000	90,000	328	721	1,071	1,285	1,484
90,000	95,000	369	811	1,204	1,444	1,669
95,000	100,000	410	900	1,337	1,604	1,853
100,000	110,000	471	1,035	1,537	1,843	2,128
110,000	120,000	553	1,214	1,803	2,162	2,497
120,000	130,000	635	1,393	2,069	2,481	2,866
130,000	140,000	717	1,573	2,334	2,801	3,233
140,000	150,000	798	1,752	2,601	3,119	3,602
150,000	160,000	880	1,932	2,866	3,439	3,970
160,000	170,000	962	2,111	3,133	3,757	4,338
170,000	180,000	1,044	2,290	3,399	4,076	4,707
180,000	190,000	1,126	2,469	3,665	4,395	5,075
190,000	200,000	1,208	2,649	3,930	4,715	5,443
200,000	210,000	1,289	2,828	4,197	5,033	5,812
210,000	220,000	1,371	3,008	4,462	5,353	6,179
220,000	230,000	1,453	3,187	4,729	5,671	6,548
230,000	240,000	1,535	3,366	4,995	5,990	6,916
240,000	250,000	1,617	3,545	5,261	6,309	7,285

## SECTION 5. EFFECTIVE DATE

This revenue procedure is effective for electric automobiles (other than leased electric automobiles) that are first placed in service after August 5, 1997, and before January 1, 1998, and for leased electric au-

tomobiles that are first leased after August 5, 1997, and before January 1, 1998.

## DRAFTING INFORMATION

The principal author of this revenue procedure is Bernard P. Harvey of the Office of the Assistant Chief Counsel

(Passthroughs and Special Industries). For further information regarding the depreciation limitations and lessee inclusion amounts in this revenue procedure, contact Mr. Harvey at (202) 622-3110 (not a toll-free call).

## Part IV. Items of General Interest

### Notice of Proposed Rulemaking and Notice of Public Hearing

#### Consolidated Returns— Limitations on the Use of Certain Losses and Credits

REG-104062-97

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Notice of proposed rulemaking by cross-reference to temporary regulations and notice of public hearing.

SUMMARY: In T.D. 8751, page 23 of this Bulletin, the IRS is issuing temporary regulations that will govern the use of certain tax credits and losses of a consolidated group and its members. The text of those temporary regulations also serves as the text of these proposed regulations. This document also provides notice of a public hearing on these proposed regulations.

DATES: Written comments and outlines of topics to be discussed at the public hearing scheduled for May 7, 1998, must be received by April 13, 1998.

ADDRESSES: Send submissions to: CC:DOM:CORP:R [REG-104062-97], room 5226, Internal Revenue Service, POB 7604, Ben Franklin Station, Washington, DC 20044. Submissions may be hand delivered between the hours of 8 a.m. and 5 p.m. to: CC:DOM:CORP:R [REG-104062-97], Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue NW, Washington, DC. Alternatively, taxpayers may submit comments electronically via the Internet by selecting the "Tax Regs" option on the Home Page or by submitting comments directly to the IRS Internet site at: [http://www.irs.ustreas.gov/prod/tax\\_regs/comments.html](http://www.irs.ustreas.gov/prod/tax_regs/comments.html). The public hearing has been scheduled for May 7, 1998, at 10 a.m., in room 2615, Internal Revenue Building, 1111 Constitution Avenue NW, Washington DC.

FOR FURTHER INFORMATION CONTACT: Concerning the proposed regulations, in general, Roy Hirschhorn (202) 622-7770; concerning amendments re-

lated to foreign tax credits and foreign losses, Seth Goldstein (202) 622-3850; concerning submissions and the hearing, Mike Slaughter (202) 622-7190 (not toll-free numbers).

#### SUPPLEMENTARY INFORMATION:

##### *Background*

Temporary regulations in T.D. 8751 amend the Income Tax Regulations (26 CFR part 1) relating to section 1502. The temporary regulations provide rules that will govern the use of certain tax credits and losses of a consolidated group and its members. The text of those temporary regulations also serves as the text of these proposed regulations. The preamble to the temporary regulations explains the temporary regulations.

##### *Special Analyses*

It has been determined that this notice of proposed rulemaking is not a significant regulatory action as defined in EO 12866. Therefore, a regulatory assessment is not required. It is hereby certified that these regulations do not have a significant economic impact on a substantial number of small entities. This certification is based on the fact that these regulations principally affect persons filing consolidated federal income tax returns that have carryover or carryback of credits from separate return limitation years. Available data indicates that many consolidated return filers are large companies (not small businesses). In addition, the data indicates that an insubstantial number of consolidated return filers that are smaller companies have credit carryovers or carrybacks, and thus even fewer of these filers have credit carryovers or carrybacks that are subject to the separate return limitation year rules. Therefore, a Regulatory Flexibility Analysis under the Regulatory Flexibility Act (5 U.S.C. chapter 6) is not required. Pursuant to section 7805(f) of the Internal Revenue Code, this notice of proposed rulemaking will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

#### *Comments and Public Hearing*

Before these proposed regulations are adopted as final regulations, consideration will be given to any written comments (a signed original and eight (8) copies) that are submitted timely to the IRS. All comments will be made available for public inspection and copying.

A public hearing has been scheduled for May 7, 1998, at 10 a.m., in room 2615. Because of access restrictions, visitors will not be admitted beyond the Internal Revenue Building lobby more than 15 minutes before the hearing starts.

The rules of 26 CFR 601.601(a)(3) apply to the hearing.

Persons who wish to present oral comments at the hearing must submit written comments and an outline of the topics (signed original and eight (8) copies) to be discussed by April 13, 1998.

A period of 10 minutes will be allotted to each person for making comments.

An agenda showing the scheduling of the speakers will be prepared after the deadline for receiving outlines has passed. Copies of the agenda will be available free of charge at the hearing.

#### *Drafting Information*

The principal author of these regulations is Roy A. Hirschhorn of the Office of Assistant Chief Counsel (Corporate). Other personnel from the IRS and Treasury participated in their development.

\* \* \* \* \*

#### *Proposed Amendments to the Regulations*

Accordingly, 26 CFR part 1 is proposed to be amended as follows:

#### PART 1—INCOME TAXES

Paragraph 1. The authority citation for 26 CFR part 1 is amended by adding entries in numerical order to read in part as follows:

Authority: 26 U.S.C. 7805 \* \* \*

Section 1.1502-3 also issued under 26 U.S.C. 1502.

Section 1.1502-4 also issued under 26 U.S.C. 1502.

Section 1.1502-9 also issued under 26 U.S.C. 1502. \* \* \*

Section 1.1502-23 also issued under 26 U.S.C. 1502. \* \* \*

Section 1.1502-55 also issued under 26 U.S.C. 1502. \* \* \*

Par. 2. In §1.1502-3, paragraph (c) is revised to read as follows:

*§1.1502-3 Consolidated investment credit.*

\* \* \* \* \*

(c) [The text of the proposed paragraph (c) of this section is the same as the text of §1.1502-3T(c) published in T.D. 8751.]

\* \* \* \* \*

Par. 3. In §1.1502-4, paragraphs (f)(3) and (g)(3) are added to read as follows:

*§1.1502-4 Consolidated foreign tax credit.*

\* \* \* \* \*

(f) \* \* \*

(3) [The text of the proposed paragraph (f)(3) of this section is the same as the text of §1.1502-4T(f)(3) published in T.D. 8751.]

(g) \* \* \*

(3) [The text of the proposed paragraph (g)(3) of this section is the same as the text of §1.1502-4T(g)(3) published in T.D. 8751.]

\* \* \* \* \*

Par. 4. In §1.1502-9, paragraph (b)(1)(v) is added to read as follows:

*§1.1502-9 Application of overall foreign losses recapture rules to corporations filing consolidated returns.*

\* \* \* \* \*

(b) \* \* \*

(1) \* \* \*

(v) [The text of the proposed paragraph (b)(1)(v) of this section is the same as the text of §1.1502-9T(b)(1)(v) published in T.D. 8751.]

\* \* \* \* \*

Par. 5. Section 1.1502-21, as proposed to be added at 61 F.R. 33394, June 27, 1996, is amended in paragraph (c)(1)(iii) by adding *Example 5.* to read as follows:

*§1.1502-21 Net operating losses.*

\* \* \* \* \*

(c) \* \* \*

(1) \* \* \*

(iii) [The text of the proposed paragraph (c)(1)(iii) *Example 5* of this section is the same as the text of §1.1502-21T(c)(1)(iii) *Example 5* published in T.D. 8751.]

\* \* \* \* \*

Par. 6. Section 1.1502-23, as proposed to be added at 61 F.R. 33395, June 27, 1996, is amended by redesignating paragraphs (b) and (c) as paragraphs (c) and (d) and adding a new paragraph (b) to read as follows:

*§1.1502-23 Consolidated net section 1231 gain or loss.*

\* \* \* \* \*

(b) [The text of the proposed paragraph (b) of this section is the same as the text of §1.1502-23T(b) published in T.D. 8751.]

\* \* \* \* \*

Par. 7. Section 1.1502-55, as proposed to be added at 57 F.R. 62257, December 30, 1992, is amended by adding paragraph (h)(4)(iii) to read as follows:

*§1.1502-55 Computation of alternative minimum tax of consolidated groups.*

\* \* \* \* \*

(h) \* \* \*

(4) \* \* \*

(iii) [The text of the proposed paragraph (h)(4)(iii) of this section is the same as the text of §1.1502-55T(h)(4)(iii) published in T.D. 8751.]

\* \* \* \* \*

Michael P. Dolan,  
Deputy Commissioner of  
Internal Revenue.

(Filed by the Office of the Federal Register on January 9, 1998, 8:45 a.m., and published in the issue of the Federal Register for January 12, 1998, 63 F.R. 1803)

Notice of Proposed Rulemaking  
and Notice of Public Hearing

Qualified Zone Academy Bonds  
REG-119449-97

AGENCY: Internal Revenue Service  
(IRS), Treasury.

ACTION: Notice of proposed rulemaking by cross-reference to temporary regulations and notice of public hearing.

SUMMARY: In T.D. 8755, page 21 of this Bulletin, the IRS is issuing temporary regulations that provide guidance to holders and issuers of qualified zone academy bonds. These proposed regulations reflect changes made by the Taxpayer Relief Act of 1997, Pub. L. No. 105-34, 111 Stat. 788 (1997), and affect holders and issuers of qualified zone academy bonds. The text of those temporary regulations also serves as the text of these proposed regulations. This document also provides a notice of public hearing on these proposed regulations.

DATES: Written comments must be received by April 7, 1998. Outlines of topics to be discussed at the public hearing scheduled for May 27, 1998, must be received by May 6, 1998.

ADDRESSES: Send submissions to CC:DOM:CORP:R (REG-119449-97), room 5226, Internal Revenue Service, POB 7604, Ben Franklin Station, Washington, DC 20044. Submissions may be hand delivered between the hours of 8 a.m. and 5 p.m. to: CC:DOM:CORP:R (REG-119449-97), Courier's Desk, Internal Revenue Building, 1111 Constitution Avenue, NW, Washington, DC. Alternatively, taxpayers may submit comments electronically via the Internet by selecting the "Tax Regs" option on the IRS Home Page, or by submitting directly to the IRS Internet site at <http://www.irs.ustreas.gov/prod/taxregs/comments.html>. The public hearing will be held in Room 2615, Internal Revenue Building, 1111 Constitution Ave., NW, Washington, DC.

FOR FURTHER INFORMATION CONTACT: Concerning the regulations, Timothy L. Jones, (202) 622-3980; concerning submissions and the hearing, LaNita Van Dyke (202) 622-7180 (not toll-free numbers).

SUPPLEMENTARY INFORMATION:

*Background*

Section 1.1397E-1T, published in T.D. 8755, is issued to provide guidance to holders and issuers of qualified zone academy bonds.

The text of those temporary regulations also serves as the text of these proposed regulations. The preamble to the temporary regulations explains the temporary regulations.

#### *Special Analyses*

It has been determined that this notice of proposed rulemaking is not a significant regulatory action as defined in EO 12866. Therefore, a regulatory assessment is not required. It has also been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) does not apply to these regulations, and, because the regulations do not impose a collection of information on small entities, the Regulatory Flexibility Act (5 U.S.C. chapter 6) does not apply. Pursuant to section 7805(f) of the Internal Revenue Code, this notice of proposed rulemaking will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

#### *Comments and Public Hearing*

Before these proposed regulations are adopted as final regulations, consideration will be given to any written (a signed original and eight (8) copies) or electronic comments that are submitted timely to the IRS. All comments will be available for public inspection and copying.

A public hearing has been scheduled for May 27, 1998, at 10:00 a.m. in Room 2615, Internal Revenue Building, 1111 Constitution Avenue NW, Washington, DC. Because of access restrictions, visitors will not be admitted beyond the building lobby more than 15 minutes before the hearing starts.

The rules of 26 C.F.R. 601.601(a)(3) apply to the hearing.

Persons that wish to present oral comments at the hearing must submit written comments by April 7, 1998, and submit an outline of the topics to be discussed and time to be devoted to each topic (signed original and eight (8) copies) by May 6, 1998.

A period of 10 minutes will be allotted to each person for making comments.

An agenda showing the scheduling of the speakers will be prepared after the deadline for receiving outlines has passed. Copies of the agenda will be available free of charge at the hearing.

#### *Drafting Information*

Several persons from the Office of Chief Counsel and the Treasury Department participated in the development and drafting of these regulations.

\* \* \* \* \*

#### *Proposed Amendment to the Regulations*

Accordingly, 26 CFR part 1 is proposed to be amended as follows:

#### **PART 1—INCOME TAXES**

Paragraph 1. The authority citation for part 1 is amended by adding an entry in numerical order to read as follows:

Authority: 26 U.S.C. 7805 \* \* \*  
Section 1.1397E-1 also issued under 26 U.S.C. 1397E(b) and 1397E(d). \* \* \*

Par. 2. Sections 1.1397E-1 is added to read as follows:

#### *§ 1.1397E-1 Qualified zone academy bonds.*

[The text of this proposed section is the same as the text of §1.1397E-1T published in T.D. 8755.]

Michael P. Dolan,  
*Deputy Commissioner of  
Internal Revenue.*

Approved December 19, 1997.

Donald C. Lubick,  
*Acting Assistant Secretary of  
the Treasury.*

(Filed by the Office of the Federal Register on January 6, 1998, 8:45 a.m., and published in the issue of the Federal Register for January 7, 1998, 63 F.R. 671)

#### **Proposed Forms W-8, W-8A, W-8B, and W-8C**

#### **Announcement 98-15**

The Internal Revenue Service announces that it is requesting comments from the public on proposed new Forms W-8, W-8A, W-8B, W-8C. These forms are being developed as a result of final regulations published on October 14, 1997, relating to the withholding of income tax under sections 1441, 1442, and 1443 on certain U.S. source income paid to foreign persons. T.D. 8734, 62 F.R. 53387; 1997-44 I.R.B. 5. These regulations, which provide for the use of several

withholding certificates, will be effective January 1, 1999.

Form W-8 (Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding) would be provided to a withholding agent or payer by a beneficial owner of certain types of income to establish foreign status, to claim that such person is the beneficial owner of the income for which the form is being furnished, and if applicable, to claim a reduced rate of, or exemption from, withholding as a resident of a foreign country with which the United States has an income tax treaty.

Form W-8A (Foreign Person's Claim of Income Effectively Connected With the Conduct of a Trade or Business in the United States) would be provided to a withholding agent or payer by a foreign person claiming that certain income is effectively connected with the conduct of a trade or business in the United States.

Form W-8B (Certification for United States Tax Withholding for Foreign Governments and Other Foreign Organizations) would be provided to a withholding agent or payer by a foreign government, international organization, foreign central bank of issue, or foreign tax-exempt organization to claim that such organization is the beneficial owner of the income for which the form is being furnished, and if applicable, to claim a reduced rate of, or exemption from, withholding as a resident of a foreign country with which the United States has an income tax treaty.

Form W-8C (Certificate of Intermediary for United States Tax Withholding) would be provided to a withholding agent or payer by an intermediary either to make representations regarding the status of beneficial owners of the amount paid or to transmit appropriate documentation to the withholding agent.

This announcement provides draft copies of proposed Forms W-8, W-8A, W-8B, and W-8C. The forms are being issued without the instructions so that withholding agents can adapt their systems to comply with the regulations. Based on comments, the forms may be revised, and together with instructions, will be re-issued for further comment as part of the OMB approval process.

The IRS would like to receive comments on these proposed draft forms from all interested persons by April 8, 1998. Please send comments to Chairman, Tax

Forms Coordinating Committee, Internal  
Revenue Service, T:FP, Room 5577, 1111  
Constitution Avenue, NW, Washington,  
DC 20224.



## Exhibit 1

Form **W-8**  
(October 1998)**Certificate of Foreign Status of Beneficial Owner  
for United States Tax Withholding**

OMB No. 1545-XXXX

Department of the Treasury  
Internal Revenue Service

► Section references are to the Internal Revenue Code.  
 ► Please type or print. ► See separate instructions.  
 ► Give this form to the withholding agent or payer. Do not send to the IRS.

**Do not submit this form for a:**

- Foreign partnership (unless you are a hybrid entity claiming treaty benefits—see definitions) W-8A or W-8C
- Foreign government, international organization, foreign central bank of issue, tax-exempt organization, or private foundation W-8A or W-8B

**Instead, submit Form:****Do not submit this form if you are:**

- Acting as an intermediary. . . . . W-8C
- Claiming an exemption from U.S. withholding on income effectively connected with the conduct of a trade or business in the U.S. . . . W-8A

**Instead, submit Form:****Part I Identification of Beneficial Owner** (Complete line 1a or 1b, whichever applies)

<b>1a</b> Individual's last name (surname or family name)		First name	Middle name
<b>1b</b> Name of organization (if other than an individual)		<b>2</b> Country of incorporation or organization	
<b>3</b> Permanent residence address (Street, apt. or suite no., or rural route). <b>Do not use a P.O. box.</b>			
City or town, state or province. Include postal code where appropriate.			Country (do not abbreviate)
<b>4</b> Mailing address (if different from above)			
City or town, state or province. Include postal code where appropriate.			Country (do not abbreviate)
<b>5</b> U.S. taxpayer identifying number, if required (see instructions)		<b>6</b> Foreign tax identifying number, if any	
<b>7</b> Account number(s) (optional)			
<b>8</b> Type of organization: <input type="checkbox"/> Corporation <input type="checkbox"/> Partnership <input type="checkbox"/> Trust <input type="checkbox"/> Estate			

**Part II Claim of Tax Treaty Benefits****I certify that (check all that apply):**

- a** ☐ I am a resident of \_\_\_\_\_ within the meaning of the income tax treaty between the United States and that country.  
(name of country)
- b** ☐ If required, the U.S. taxpayer identifying number stated on line 5 is certified (see instructions).
- c** ☐ The beneficial owner is not an individual, meets the requirements of the article in the applicable treaty dealing with limitation on benefits, and derives the income for which the treaty benefits are claimed for the following reasons (see instructions):  
.....
- d** ☐ The beneficial owner is not an individual, is claiming treaty benefits for dividends received from a foreign corporation or interest from a U.S. trade or business of a foreign corporation, and meets qualified resident status for the following reasons (see instructions):  
.....
- e** ☐ The beneficial owner is claiming the reduced rate of tax on dividends between related corporations under an income tax treaty between the United States and Denmark, and has complied with the requirement for a private letter ruling from the Internal Revenue Service.
- f** ☐ The beneficial owner is related to the person obligated to pay the income within the meaning of section 267(b) or 707(b), and will file Form 8833 if the amount received during a calendar year exceeds, in the aggregate, \$500,000.

Under penalties of perjury, I declare that I have examined the information on this form and to the best of my knowledge and belief it is true, correct, and complete. I further certify under penalties of perjury that:

- I am the beneficial owner (or am signing for a beneficial owner that is not an individual) of all the income to which this form relates,
- The beneficial owner is a foreign person,
- The income to which this form relates is not effectively connected with the conduct of a trade or business in the United States,
- For broker transactions or barter exchanges, the beneficial owner has not been present in the United States 183 days or more during the taxable year, and
- I am not a former citizen or long-term resident of the United States subject to section 877 or, if I am subject to section 877, I am nevertheless entitled to treaty benefits with respect to the amounts received.

**Sign Here**

Signature of beneficial owner (or trustee, executor, or corporate officer)

Date

For Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 25047Z

Form **W-8** (10-98)

## Exhibit 2

Form <b>W-8A</b> (October 1998) Department of the Treasury Internal Revenue Service	<b>Foreign Person's Claim of Income Effectively Connected          With the Conduct of a Trade or Business          in the United States</b> ▶ See separate instructions. ▶ Please type or print. ▶ Give this form to the withholding agent or payer. Do not send to the IRS.	OMB No. 1545-XXXX
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**Part I Identification of Beneficial Owner** (Complete line 1a or 1b, whichever applies.)

<b>1a</b> Individual's last name (surname or family name)	First name	Middle name
<b>1b</b> Name of organization (if other than an individual)	<b>2</b> Country of incorporation or organization	
<b>3</b> Permanent residence address (street, apt. or suite no., or rural route). <b>Do not</b> use a P.O. box.		
City or town, state or province. Include postal code where appropriate.		Country (do not abbreviate)
<b>4</b> Business address in the United States (street, apt. or suite no., or rural route). <b>Do not</b> use a P.O. box.		
City or town, state, and ZIP code		
<b>5</b> U.S. taxpayer identifying number (see instructions)	<b>6</b> Foreign tax identifying number, if any	
<b>7</b> Account number(s) (optional)		
<b>8</b> Type of entity—check the appropriate box: <div style="display: flex; flex-wrap: wrap;"> <div style="width: 33%;"><input type="checkbox"/> Individual</div> <div style="width: 33%;"><input type="checkbox"/> Partnership</div> <div style="width: 33%;"><input checked="" type="checkbox"/> Trust</div> <div style="width: 33%;"><input type="checkbox"/> Private foundation</div> <div style="width: 33%;"><input type="checkbox"/> International organization</div> <div style="width: 33%;"><input type="checkbox"/> Corporation</div> <div style="width: 33%;"><input type="checkbox"/> Estate</div> <div style="width: 33%;"><input type="checkbox"/> Tax-exempt organization</div> <div style="width: 33%;"><input type="checkbox"/> Foreign government</div> <div style="width: 33%;"><input type="checkbox"/> Foreign central bank of issue</div> </div>		
<b>9</b> Each item of income that is, or is expected to be, received from the payer is effectively connected with the conduct of a trade or business in the United States unless specified here		

**Part II Certification**
**Sign  
Here**

Under penalties of perjury, I declare that I have examined the information on this form and to the best of my knowledge and belief it is true, correct, and complete. I further certify under penalties of perjury that:

- I am the beneficial owner (or I am signing for a beneficial owner who is not an individual) of all the income to which this form relates, and
- The beneficial owner is a foreign person.

 \_\_\_\_\_  
 Signature of beneficial owner (or person authorized to sign for the organization)

 \_\_\_\_\_  
 Date

For Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 25045D

 Form **W-8A** (10-98)

## Exhibit 3

Form <b>W-8B</b>  (October 1998)  Department of the Treasury Internal Revenue Service	<b>Certification for United States Tax Withholding for Foreign Governments and Other Foreign Organizations</b> (For use by foreign governments, international organizations, foreign central banks of issue, and tax-exempt organizations.)  ▶ Section references are to the Internal Revenue Code. ▶ Please type or print. ▶ See separate instructions. ▶ Give this form to the withholding agent or payer. Do not send to the IRS.	OMB No. 1545-xxxx
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**Caution:** Do not use this form if:

- You are claiming an exemption from U.S. withholding on income that is effectively connected with the conduct of a trade or business in the United States. Instead, submit **Form W-8A**.
- You are acting as an intermediary. Instead, submit **Form W-8C**.

**Part I Identification of Beneficial Owner**

1 Full name of organization, or governmental agency or instrumentality

2 Permanent address (Street, apt. or suite no., or rural route). Do not use a P.O. box.

City or town, state or province. Include postal code where appropriate.

Country (do not abbreviate)

3 Mailing address (if different from above)

City or town, state or province. Include postal or ZIP code where appropriate.

Country (do not abbreviate)

4 Country of incorporation or organization

5 Foreign tax identifying number, if any

6 U.S. taxpayer identifying number, if required (see instructions)

7 Account number(s) (optional)

8 Type of entity

☐ Foreign government☐ International organization☐ Foreign central bank of issue☐ Foreign tax-exempt organization**Part II Certification Statement****9 For a foreign government:**

I certify that the entity identified in Part I is (check one):

☐ A foreign government exempt from taxation under section 892.☐ An integral part of a foreign government.☐ A controlled entity of the government of .....**10 For an international organization:**☐ I certify that:

- The entity identified in Part I is an international organization within the meaning of section 7701(a)(18); and
- The payments are within the scope of the exemption granted by section 892.

**11 For a foreign central bank of issue:**☐ I certify that:

- The entity identified in Part I is a foreign central bank of issue;
- The entity identified in Part I does not hold obligations or bank deposits to which this form relates for use in connection with the conduct of a commercial banking function or other commercial activity; and
- The payments are within the scope of the exemption granted by section 895.

**12 For a foreign tax-exempt organization:**

Check one:

- a ☐ I certify that the entity identified in Part I has been issued a determination letter by the IRS dated ..... that is currently in effect and that concludes that it is an organization described in section 501(c).
- b ☐ I have attached to this form an opinion from U.S. counsel concluding that the entity identified in Part I is described in section 501(c).

Check one:

- c ☐ If the determination letter or opinion of counsel concludes that the entity identified in Part I is described in section 501(c)(3), I certify that the organization is a private foundation described in section 509. I have attached an affidavit of the organization setting forth sufficient facts for the IRS to determine that the organization would qualify as an organization described in section 509(a)(1), (2), (3), or (4).
- d ☐ If the determination letter or opinion of counsel concludes that the entity identified in Part I is described in section 501(c)(3), I certify that the organization is not a private foundation described in section 509.

I have attached information certifying what portion (if any) of the amounts to which this form relates constitutes income includible under section 512 in computing the entity's unrelated business taxable income.



Exhibit 3 (Continued)

Form W-8B (Rev. 10-98)

Page **2**

**Part III Claim of Tax Treaty Benefits**

**13** I certify that:

- The beneficial owner is a resident of ..... within the meaning of the income tax treaty in effect between the United States and that country. (name of country)
- If required, the taxpayer identifying number stated on line 6 is certified (see instructions).
- The beneficial owner meets the requirements under the provisions of the article in the applicable treaty dealing with the limitation on benefits for the following reasons (see instructions) .....

Under penalties of perjury, I declare that I have examined the information on this form and to the best of my knowledge and belief it is true, correct, and complete and that:

- The organization for which I am signing is the beneficial owner of the income to which this form relates;
- The beneficial owner is a foreign person;
- The income to which this certificate relates is not effectively connected with the conduct of a trade or business in the United States; and
- For broker transactions or barter exchanges, the beneficial owner is an exempt foreign person as defined in the instructions.

**Sign  
here**

\_\_\_\_\_  
Signature of authorized official

\_\_\_\_\_  
Date



Printed on recycled paper

## Exhibit 4

Form <b>W-8C</b> (October 1998) Department of the Treasury Internal Revenue Service	<b>Certificate of Intermediary for United States Tax Withholding</b> ▶ Please type or print. ▶ See separate instructions. ▶ Give this form to the withholding agent or payer. Do not send to the IRS.	OMB No. 1545-XXXX
<b>Part I Identification of Intermediary</b> (Complete line 1a or 1b, whichever applies.)		
<b>1a</b> Individual's last name (surname or family name)		First name
<b>1b</b> Full name of organization, if other than individual		<b>2</b> Country of incorporation or organization
<b>3</b> Permanent residence address (Street, apt. or suite no., or rural route). Do not use P.O. Box.		
City or town, state or province. Include postal code where appropriate.		Country (do not abbreviate)
<b>4</b> Mailing address (if different from above)		
City or town, state or province. Include postal code where appropriate.		Country (do not abbreviate)
<b>5</b> U.S. taxpayer identifying number (see instructions)		<b>6</b> Foreign tax identifying number, if any
<b>7</b> Account number(s) (optional)		<b>8</b> Partnerships only (check one): <input type="checkbox"/> Partnership acting for its partners <input type="checkbox"/> Partnership acting for others
<b>9</b> Type of intermediary—check the appropriate box: <input type="checkbox"/> Qualified intermediary. Complete Part II. <input type="checkbox"/> U.S. branch. Complete Part IV. <input type="checkbox"/> Withholding foreign partnership. Complete Part V. <input type="checkbox"/> Nonqualified intermediary. Complete Part III. <input type="checkbox"/> Nonwithholding foreign partnership. Complete Part VI.		
<b>Part II Qualified Intermediary</b>		
<b>10</b> <input type="checkbox"/> I certify that the entity identified in Part I: <ul style="list-style-type: none"> <li>• Is a qualified intermediary under Agreement No. _____;</li> <li>• Is acting as a qualified intermediary and is not acting for its own account; and</li> <li>• Has obtained the appropriate certificates or other documentation as required in its withholding agreement for those account holders that are covered by this certificate and whose assets are identified as being allocable to the categories described in the instructions.</li> </ul> I have attached a statement that provides sufficient information for the withholding agent to determine the correct amount required to be withheld from amounts paid to the intermediary and reported to the IRS.		
<b>Part III Nonqualified Intermediary</b>		
<b>11</b> <input type="checkbox"/> I certify that the entity identified in Part I: <ul style="list-style-type: none"> <li>• Is not a qualified intermediary;</li> <li>• Is not acting for its own account; and</li> <li>• Is using this form to transmit withholding certificates and other documentation for the payment(s) to which this form relates.</li> </ul> Check one: <input type="checkbox"/> The attached withholding certificate and other documentation represent all of the persons to which this form relates. <input type="checkbox"/> The amounts allocable to persons covered by this form but for which withholding certificates or other documentation are lacking or unreliable are separately identified.		
I have attached the required statement providing: <ul style="list-style-type: none"> <li>• That the entity described in Part I is a securities clearing organization, a bank, or another financial institution that holds customer securities in the ordinary course of its trade or business.</li> <li>• That the entity described in Part I has received from the beneficial owner(s) Form(s) W-8, W-8A, and/or W-8B, or other appropriate documentation giving the names and addresses of the beneficial owner(s) (or has received from another financial institution a certification that it (or another financial institution acting on behalf of the beneficial owner(s)) has received Form(s) W-8, W-8A, and/or W-8B, or other appropriate documentation from the beneficial owner(s)).</li> <li>• Sufficient information to enable the withholding agent to determine the correct amount required to be withheld.</li> </ul>		
For Paperwork Reduction Act Notice, see separate instructions.		
Cat. No. 25402Q		Form <b>W-8C</b> (10-98)

# Exhibit 4 (Continued)

Form W-8C (10-98)

Page **2**

## Part IV Certain United States Branches

Check **12** or **13**, whichever applies:

- 12** ☐ I certify that the entity identified in Part I is using this form as evidence of its agreement with the withholding agent to be treated as a U.S. person with respect to any payments associated with this certificate.
- 13** ☐ I certify that the entity identified in Part I:
- Is using this form to transmit withholding certificates or other appropriate documentation for the persons for whom the branch receives the payment; **and**
  - Is a U.S. branch and that the payments are not effectively connected with the conduct of a trade or business in the United States.

Check one:

- ☐ The attached withholding certificates and other documentation represent all of the persons to which this form relates.
- ☐ The amounts allocable to persons covered by this form but for which withholding certificates or other documentation are lacking or unreliable are separately identified.

I have attached the required statement providing sufficient information to enable the withholding agent to determine the correct amount required to be withheld.

## Part V Withholding Foreign Partnership

- 14** ☐ I certify that the entity identified in Part I is a withholding foreign partnership under Agreement No. .... and has obtained the appropriate certification or other documentation in the manner required in its withholding agreement for all partners.

I have attached the required statement providing sufficient information to enable the withholding agent to determine the correct amount required to be withheld from amounts paid to the partnership and reported to the IRS.

## Part VI Nonwithholding Foreign Partnership

- 15** ☐ I certify that the entity identified in Part I is a foreign partnership.

Check one:

- ☐ I certify that the attached Form(s) W-8, W-8A, and/or W-8B and other appropriate documentation represent all of the partners.
- ☐ Partners for whom Form(s) W-8, W-8A, and/or W-8B or appropriate documentation are lacking are separately identified in the attached statement.

I have attached the required statement providing all information required by this form and its instructions, including sufficient information to determine the correct amount required to be withheld.

Under penalties of perjury, I declare that I have examined this form and to the best of my knowledge and belief it is true, correct, and complete.

**Sign Here** 

\_\_\_\_\_  
Signature of authorized official

\_\_\_\_\_  
Date



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## Conversion to the Euro by Members of the European Union Announcement 98-18

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Solicitation for comments.

SUMMARY: The Treasury Department and the IRS are soliciting comments on the tax issues raised by the conversion of certain European countries' currencies to a single European currency (euro).

### SUPPLEMENTARY INFORMATION:

#### *Background*

The Treaty on European Union and Final Act of Feb. 7, 1992, 31 I.L.M. 247 (entered into force Nov. 1, 1993), sets forth a plan to replace the national currencies of participating members (legacy currencies) that meet certain economic criteria with a single European currency (euro). Pursuant to directives of the European Council, the process of converting the legacy currencies into the euro will take place in three phases.

On January 1, 1999, the conversion rates from the legacy currencies to the euro are scheduled to become fixed. Thereafter, each of the legacy currencies will remain in circulation but will cease to have independent value apart from the euro. On January 1, 2002, euro bills and coins will be introduced into circulation. Finally, by July 1, 2002, the legacy currencies will no longer be accepted as legal tender.

The conversion of a legacy currency to the euro raises a number of tax issues for U.S. taxpayers operating, investing or otherwise conducting business in a legacy currency. For example, U.S. federal tax considerations include:

1. Whether a qualified business unit (QBU), as defined in section 989(a), with a legacy functional currency that is converted to the euro will have changed its functional currency under section 985 and regulations thereunder and the implications of any such change (e.g., whether Treas. Reg. §1.985-5 adequately addresses necessary adjustments, the treatment of unrealized currency gains and losses, and the appropriate timing of any such change).

2. Whether the conversion of a legacy currency to the euro creates a realization event with respect to a financial instrument denominated in a legacy currency and the appropriate time to recognize any resulting gain or loss.

#### *Comments*

The Treasury Department and the IRS are studying issues arising from conversion to the euro to determine the appropriate scope and content of published guidance and invite interested persons to submit comments regarding, but not limited to, the issues described above.

Comments are requested on or before April 30, 1998. Send written comments to: Internal Revenue Service, Attn: CC:DOM:CORP:R (Announcement 98-18), room 5226, POB 7604, Ben Franklin Station, Washington, DC 20044. Alternatively, taxpayers may submit comments in writing, by hand delivery to CC:DOM:CORP:R (Announcement 98-18), Courier's Desk, Internal Revenue Service, 1111 Constitution Ave., NW, Washington, DC, or, electronically, via the IRS Internet site at: <http://www.irs.ustreas.gov/prod/taxregs/comments.html>. If a respondent is submitting written comments, a signed original and eight (8) copies are requested. All comments will be available for public inspection and copying in their entirety.

#### DRAFTING INFORMATION

For further information regarding this announcement, contact Howard Wiener of the Office of Associate Chief Counsel (International) at 202-622-3870 (not a toll-free number)

### Deletions From Cumulative List of Organizations Contributions to Which Are Deductible Under Section 170 of the Code

#### Announcement 98-19

The names of organizations that no longer qualify as organizations described in section 170(c)(2) of the Internal Revenue Code of 1986 are listed below.

Generally, the Service will not disallow deductions for contributions made to a listed organization on or before the date

of announcement in the Internal Revenue Bulletin that an organization no longer qualifies. However, the Service is not precluded from disallowing a deduction for any contributions made after an organization ceases to qualify under section 170(c)(2) if the organization has not timely filed a suit for declaratory judgment under section 7428 and if the contributor (1) had knowledge of the revocation of the ruling or determination letter, (2) was aware that such revocation was imminent, or (3) was in part responsible for or was aware of the activities or omissions of the organization that brought about this revocation.

If on the other hand a suit for declaratory judgment has been timely filed, contributions from individuals and organizations described in section 170(c)(2) that are otherwise allowable will continue to be deductible. Protection under section 7428(c) would begin on March 9, 1998, and would end on the date the court first determines that the organization is not described in section 170(c)(2) as more particularly set forth in section 7428(c)(1). For individual contributors, the maximum deduction protected is \$1,000, with a husband and wife treated as one contributor. This benefit is not extended to any individual who was responsible, in whole or in part, for the acts or omissions of the organization that were the basis for revocation. Adopt-A-Pet, Inc.

Tulsa, OK  
Cavalier Manor Little League  
Portsmouth, VA  
Fountain of Life, Inc.  
Fayetteville, NC  
Health Plan Associates, PA  
Baltimore, MD

### Section 7428(c) Validation of Certain Contributions Made During Pendency of Declaratory Judgment Proceedings

This announcement serves notice to potential donors that the organization listed below has recently filed a timely declaratory judgment suit under section 7428 of the Code, challenging revocation of its status as an eligible donee under section 170(c)(2).

Protection under section 7428(c) of the Code begins on the date that the notice of

revocation is published in the Internal Revenue Bulletin and ends on the date on which a court first determines that an organization is not described in section 170(c)(2), as more particularly set forth in section 7428(c)(1). In the case of individual contributors, the maximum amount of contributions protected during this period is limited to \$1,000.00, with a husband

and wife being treated as one contributor. This protection is not extended to any individual who was responsible, in whole or in part, for the acts or omissions of the organization that were the basis for the revocation. This protection also applies (but without limitation as to amount) to organizations described in section 170(c)(2) which are exempt from tax

under section 501(a). If the organization ultimately prevails in its declaratory judgment suit, deductibility of contributions would be subject to the normal limitations set forth under section 170.

Muscular Dystrophy Aid Society, Inc.  
Houston, TX



# Announcement of the Consent Voluntary Suspension of Attorneys, Certified Public Accountants, Enrolled Agents, and Enrolled Actuaries From Practice Before the Internal Revenue Service

Under 31 Code of Federal Regulations, Part 10, an attorney, certified public accountant, enrolled agent, or enrolled actuary, in order to avoid the institution or conclusion of a proceeding for his disbarment or suspension from practice before the Internal Revenue Service, may offer his consent to suspension from such practice. The Director of Practice, in his discretion, may suspend an attorney, certified public accountant, enrolled agent, or enrolled actuary in accordance with the consent offered.

Attorneys, certified public accountants, enrolled agents, and enrolled actuaries are prohibited in any Internal Revenue Ser-

vice matter from directly or indirectly employing, accepting assistance from, being employed by, or sharing fees with any practitioner disbarred or suspended from practice before the Internal Revenue Service.

To enable attorneys, certified public accountants, enrolled agents, and enrolled actuaries to identify practitioners under consent suspension from practice before the Internal Revenue Service, the Director of Practice will announce in the Internal Revenue Bulletin the names and addresses of practitioners who have been suspended from such practice, their designation as attorney, certified public ac-

countant, enrolled agent, or enrolled actuary, and date or period of suspension. This announcement will appear in the weekly Bulletin at the earliest practicable date after such action and will continue to appear in the weekly Bulletins for five successive weeks or for as many weeks as is practicable for each attorney, certified public accountant, enrolled agent, or enrolled actuary so suspended and will be consolidated and published in the Cumulative Bulletin.

The following individuals have been placed under consent suspension from practice before the Internal Revenue Service:

Name	Address	Designation	Date of Suspension
Trempus Jr., Joseph	Cabot, PA	CPA	October 1, 1997 to February 28, 1998
Tyler, Delbert D.	Monroeville, PA	CPA	October 23, 1997 to April 22, 2000
Gillmore, George P.	Hampton, NJ	CPA	Indefinite from October 10, 1997
Kamin, James C.	Chicago, IL	CPA	December 1, 1997 to May 31, 1999
Hubbard, Edward	Chicago, IL	Attorney	Indefinite from December 1, 1997
Retzlaff, Gene	Hortonville, WI	Enrolled Agent	December 1, 1997 to May 31, 1998
Conklin, Dennis M.	Arlington Hgts, IL	CPA	December 3, 1997 to December 2, 1998
Bowen, Roger H.	Lake Bluff, IL	CPA	December 4, 1997 to December 3, 1999
Ciconte, William	Wilmington, DE	Enrolled Agent	December 10, 1997 to December 9, 2000
Lopin, Paul I.	Chicago, IL	CPA	Indefinite from December 11, 1997
Goldstein, Benjamin	Des Plaines, IL	CPA	December 12, 1997 to June 11, 1998
Olsen Jr., Burton	Rancho Cordova, CA	CPA	December 15, 1997 to June 14, 1998
Hickman, Michael	Lawrence, KS	CPA	December 16, 1997 to April 15, 1998
Grant, Arthur J.	Morris Plains, NJ	CPA	January 1, 1998 to December 31, 2000
Zielinski, Henry	Woodstock, IL	CPA	January 1, 1998 to June 30, 1999
Rosales, John	Batavia, IL	CPA	January 1, 1998 to April 30, 1998
Reinstein, Maxwell	Potomac, MD	CPA	January 1, 1998 to March 31, 1998
Payne, Charlotte	Breckenridge, CO	CPA	January 1, 1998 to December 31, 1999
Ibrahim, Mongy	Raleigh, NC	CPA	January 1, 1998 to December 31, 1998
Koutek, Paul J.	Westchester, IL	CPA	January 1, 1998 to August 31, 1998
Doherty, Steven	Chicago, IL	CPA	January 1, 1998 to December 31, 1999
Deren, Patricia	Lackawanna, NY	Attorney	January 1, 1998 to December 31, 1998
Calhoun, Sandra	Louisville, KY	CPA	January 1, 1998 to March 31, 1998
Thurman, Stephen	Arcadia, CA	CPA	January 1, 1998 to December 31, 1998
Davidson, Mark	Tulsa, OK	CPA	January 15, 1998 to October 14, 1999
Hequembourg, Donald	Glencoe, MO	CPA	January 20, 1998 to July 19, 1998

# Announcement of the Expedited Suspension of Attorneys, Certified Public Accountants, Enrolled Agents, and Enrolled Actuaries From Practice Before the Internal Revenue Service

Under title 31 of the Code of Federal Regulations, section 10.76, the Director of Practice is authorized to immediately suspend from practice before the Internal Revenue Service any practitioner who, within five years from the date the expedited proceeding is instituted, (1) has had a license to practice as an attorney, certified public accountant, or actuary suspended or revoked for cause; or (2) has been convicted of any crime under title 26 of the United States Code or, of a felony under title 18 of the United States Code involving dishonesty or breach of trust.

Attorneys, certified public accountants, enrolled agents, and enrolled actuaries are

prohibited in any Internal Revenue Service matter from directly or indirectly employing, accepting assistance from, being employed by, or sharing fees with, any practitioner disbarred or suspended from practice before the Internal Revenue Service.

To enable attorneys, certified public accountants, enrolled agents, and enrolled actuaries to identify practitioners under expedited suspension from practice before the Internal Revenue Service, the Director of Practice will announce in the Internal Revenue Bulletin the names and addresses of practitioners who have been suspended from such practice, their designation as attorney, certified public accountant, en-

rolled agent, or enrolled actuary, and date or period of suspension. This announcement will appear in the weekly Bulletin at the earliest practicable date after such action and will continue to appear in the weekly Bulletins for five successive weeks or for as many weeks as is practicable for each attorney, certified public accountant, enrolled agent, or enrolled actuary so suspended and will be consolidated and published in the Cumulative Bulletin.

The following individual has been placed under suspension from practice before the Internal Revenue Service by virtue of the expedited proceeding provisions of the applicable regulations:

Name	Address	Designation	Date of Suspension
Christensen, Reed K.	Roseville, CA	Enrolled Agent	Indefinite from December 16, 1997

## Definition of Terms

*Revenue rulings and revenue procedures (hereinafter referred to as "rulings") that have an effect on previous rulings use the following defined terms to describe the effect:*

*Amplified* describes a situation where no change is being made in a prior published position, but the prior position is being extended to apply to a variation of the fact situation set forth therein. Thus, if an earlier ruling held that a principle applied to A, and the new ruling holds that the same principle also applies to B, the earlier ruling is amplified. (Compare with *modified*, below).

*Clarified* is used in those instances where the language in a prior ruling is being made clear because the language has caused, or may cause, some confusion. It is not used where a position in a prior ruling is being changed.

*Distinguished* describes a situation where a ruling mentions a previously published ruling and points out an essential difference between them.

*Modified* is used where the substance of a previously published position is being changed. Thus, if a prior ruling held that a principle applied to A but not to B, and the new ruling holds that it ap-

plies to both A and B, the prior ruling is modified because it corrects a published position. (Compare with *amplified* and *clarified*, above).

*Obsoleted* describes a previously published ruling that is not considered determinative with respect to future transactions. This term is most commonly used in a ruling that lists previously published rulings that are obsoleted because of changes in law or regulations. A ruling may also be obsoleted because the substance has been included in regulations subsequently adopted.

*Revoked* describes situations where the position in the previously published ruling is not correct and the correct position is being stated in the new ruling.

*Superseded* describes a situation where the new ruling does nothing more than restate the substance and situation of a previously published ruling (or rulings). Thus, the term is used to republish under the 1986 Code and regulations the same position published under the 1939 Code and regulations. The term is also used when it is desired to republish in a single ruling a series of situations, names, etc., that were previously published over a period of time in separate rulings. If the

new ruling does more than restate the substance of a prior ruling, a combination of terms is used. For example, *modified* and *superseded* describes a situation where the substance of a previously published ruling is being changed in part and is continued without change in part and it is desired to restate the valid portion of the previously published ruling in a new ruling that is self contained. In this case the previously published ruling is first modified and then, as modified, is superseded.

*Supplemented* is used in situations in which a list, such as a list of the names of countries, is published in a ruling and that list is expanded by adding further names in subsequent rulings. After the original ruling has been supplemented several times, a new ruling may be published that includes the list in the original ruling and the additions, and supersedes all prior rulings in the series.

*Suspended* is used in rare situations to show that the previous published rulings will not be applied pending some future action such as the issuance of new or amended regulations, the outcome of cases in litigation, or the outcome of a Service study.

## Abbreviations

*The following abbreviations in current use and formerly used will appear in material published in the Bulletin.*

A—Individual.  
Acq.—Acquiescence.  
B—Individual.  
BE—Beneficiary.  
BK—Bank.  
B.T.A.—Board of Tax Appeals.  
C—Individual.  
C.B.—Cumulative Bulletin.  
CFR—Code of Federal Regulations.  
CI—City.  
COOP—Cooperative.  
Ct.D.—Court Decision.  
CY—County.  
D—Decedent.  
DC—Dummy Corporation.  
DE—Donee.  
Del. Order—Delegation Order.  
DISC—Domestic International Sales Corporation.  
DR—Donor.  
E—Estate.  
EE—Employee.

E.O.—Executive Order.  
ER—Employer.  
ERISA—Employee Retirement Income Security Act.  
EX—Executor.  
F—Fiduciary.  
FC—Foreign Country.  
FICA—Federal Insurance Contribution Act.  
FISC—Foreign International Sales Company.  
FPH—Foreign Personal Holding Company.  
F.R.—Federal Register.  
FUTA—Federal Unemployment Tax Act.  
FX—Foreign Corporation.  
G.C.M.—Chief Counsel's Memorandum.  
GE—Grantee.  
GP—General Partner.  
GR—Grantor.  
IC—Insurance Company.  
I.R.B.—Internal Revenue Bulletin.  
LE—Lessee.  
LP—Limited Partner.  
LR—Lessor.  
M—Minor.  
Nonacq.—Nonacquiescence.  
O—Organization.  
P—Parent Corporation.

PHC—Personal Holding Company.  
PO—Possession of the U.S.  
PR—Partner.  
PRS—Partnership.  
PTE—Prohibited Transaction Exemption.  
Pub. L.—Public Law.  
REIT—Real Estate Investment Trust.  
Rev. Proc.—Revenue Procedure.  
Rev. Proc.—Revenue Ruling.  
S—Subsidiary.  
S.P.R.—Statements of Procedural Rules.  
Stat.—Statutes at Large.  
T—Target Corporation.  
T.C.—Tax Court.  
T.D.—Treasury Decision.  
TFE—Transferee.  
TFR—Transferor.  
T.I.R.—Technical Information Release.  
TP—Taxpayer.  
TR—Trust.  
TT—Trustee.  
U.S.C.—United States Code.  
X—Corporation.  
Y—Corporation.  
Z—Corporation.

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<sup>1</sup> A cumulative list of all revenue rulings, revenue procedures, Treasury decisions, etc., published in Internal Revenue Bulletins 1997–27 through 1997–52 will be found in Internal Revenue Bulletin 1998–1, dated January 5, 1998.



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<sup>1</sup> A cumulative finding list for previously published items mentioned in Internal Revenue Bulletins 1997–27 through 1997–52 will be found in Internal Revenue Bulletin 1998–1, dated January 5, 1998.